

**THE DETERMINANTS OF TAX EVASION AMONGST SMALL AND MEDIUM-
SIZED ENTERPRISES (SMEs): EVIDENCE FROM LIMPOPO PROVINCE,
SOUTH AFRICA**

By

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ABSTRACT

Tax evasion presents a major socio-economic obstacle to progress in numerous developing nations. It is widely practiced in South Africa, weakening the government's primary funding source for public spending. This study sought to pinpoint the primary factors that impact tax evasion in Small and Medium-Sized Enterprises located in Limpopo Province, South Africa. A Likert-scale survey gathered information from 210 small and medium-sized enterprises in Limpopo Province. Several statistical analyses were utilised, and data were analysed using STATA version 17. The study findings revealed that the key factors contributing to tax evasion are the likelihood of being caught, the tax rate setup, high tax rates, perceived unfairness in taxes, the intricacy of the tax system, fiscal inequality, and the absence of moral responsibility. The OLS regression analysis found meaningful positive relationships between tax evasion and factors like the likelihood of detection, the layout of the tax rate schedule, perceived fairness of taxes, and fiscal inequality. Furthermore, there were significant negative relationships between high tax rates and moral obligation with tax evasion. In contrast, the tax system had a positive relationship that was not statistically significant. These results provide an essential understanding for the South African Revenue Service, the government, and researchers. The outcomes can guide the creation of policies to address disparities in the tax system, leading to a decrease in tax evasion and an enhancement in revenue collection within the Limpopo Province.

Keywords: *Tax evasion; Limpopo Province; taxpayer; tax revenue; tax avoidance; South African Revenue Service (SARS)*

DECLARATION

I, **Tshilidzi Anthethia Nematili (student number 17001765)**, hereby declare that this dissertation, titled **THE DETERMINANTS OF TAX EVASION AMONGST SMALL AND MEDIUM-SIZED ENTERPRISES (SMEs): EVIDENCE FROM LIMPOPO PROVINCE, SOUTH AFRICA**, for a Master of Commerce in Accounting degree submitted by me to the Faculty of Commerce, Management and Law at the University of Venda, has not been previously submitted, in part or in full, for academic examination towards any qualification, at this or any other tertiary institution. I have written this dissertation, and all reference materials herein have been acknowledged.



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LIST OF ACRONYMS AND ABBREVIATIONS

BTS	:	Bartlett Test of Sphericity
CIT	:	Corporate Income Tax
DTAs	:	Double Taxation Agreements
EDT	:	Economic Deterrence Theory
EFA	:	Exploratory Factor Analysis
KMO	:	Kaiser-Meyer-Olkin
IRS-CI:		Internal Revenue Service Criminal Investigation
OLS	:	Ordinary Least Square
PIT	:	Personal Income Tax
POPIA:		Protection of Personal Information Act
SMEs	:	Small and Medium-Sized Enterprises
SA	:	South Africa
SARS:		South African Revenue Service
Stata	:	Statistical software package
Stats SA:		Statistics South Africa
VAT	:	Value Added Tax
VIF	:	Variance Inflation Factor

CHAPTER 1

INTRODUCTION AND BACKGROUND

1.1 Introduction

This chapter gives a detailed summary of the basic components of the study on *The Determinants of Tax Evasion Amongst Small and Medium-Sized Enterprises (SMEs) in Limpopo Province, South Africa (SA)*. The first section provides the background, situating the study in the broader academic discussion on tax evasion, specifically focusing on SMEs and the real obstacles these businesses encounter in following tax laws. After that, the issue is clearly stated, highlighting the main problems or deficiencies regarding tax evasion among small and medium enterprises that the study aimed to tackle. The chapter explains the study goals and outlines the research questions to identify the factors affecting tax evasion behaviour in this setting.

Moreover, a brief overview of the research methodology is presented, emphasising the use of the quantitative approach, research design, and data collection techniques to investigate the factors influencing tax evasion in SMEs. The methodology section also highlights the study's emphasis on utilising quantitative data to understand the intricate nature of tax compliance behaviours. Lastly, the study's importance is analysed, detailing how it could contribute to comprehending tax evasion in small and medium enterprises (SMEs) and its impact on tax authorities, policymakers, and SME proprietors. The study sought to guide the creation of tax policies and compliance strategies that better address the distinct obstacles encountered by small and medium enterprises in Limpopo Province. This chapter lays the foundation for the in-depth investigation and analysis reported in other sections of the study that come later.

1.2 Background

Allingham and Sandmo (1972) were the first to establish the contemporary theoretical basis for studying tax evasion, leading to a notable growth in research on its impact and consequences (Balafoutas, Beck, Kerschbamer, and Sutter, 2015:14). Richardson (2006:150) highlights that tax administration systems nowadays have

transformed into intricate structures. Owing to this development, tax evasion techniques have also improved, making it more challenging to identify these illegal activities. A typical way to evade taxes is by increasing costs or not accurately reporting earnings, resulting in a decrease in tax liabilities (Balafoutas *et al.*, 2015:16). Governments around the globe rely significantly on taxes as a primary source of income to support their different initiatives (Mansor, 2016:165). Tax revenue is crucial for governments to finance important public services such as education, healthcare, law enforcement, infrastructure development, and environmental protection, which are essential for the population's welfare (Bani-Mustafa, Nimer & Schneider, 2024:90). Therefore, taxes are considered critical elements in raising revenue.

As stated by Annan, Bekoe, and Nketiah-Amponsah (2014:97), tax revenue plays a crucial role in the economic growth of a nation. Nevertheless, numerous developing countries, such as South Africa, struggle to generate enough tax revenue to support public spending. The South African Revenue Services (SARS) announced that R1,249.7 billion in tax revenue was collected for the financial year ending on 31 March 2021, but despite surpassing the new projected goal by R37.5 billion, it showed a decrease of R106.1 billion (7.8%) from the 2019/20 fiscal year (SARS, 2021:4). In relation to this, the Parliamentary Group Report (2022:34) states that various factors, such as tax evasion, are responsible for this decline. Since 2001, South Africa has used a taxation system that is based on residents. According to this system, South African residents are taxed on all their income worldwide. In contrast, non-residents are only taxed on income earned in South Africa, with potential relief under Double Taxation Agreements (DTAs) (Haupt, 2012). For example, every year, the Minister of Finance releases the yearly budget outlining expected government spending and how it will be funded for the following year. As such, the main source of funding for government spending in South Africa is taxes. For example, in his budget speech on 21 February 2024, Finance Minister (Enoch Gondongwana) pointed out that South Africa, a developing nation, is dealing with various issues such as outdated infrastructure in need of renewal as well as major financial constraints, and taxes are one major source of revenue to break even (Parliament of the Republic of South Africa, 2024:4). This shows that the government of South Africa relies more on taxes. As such, tax evasion may distort revenue generation, leading to budget shortfalls.

Amoh, Ofori-Boateng, Nsor-Ambala, and Bugri Anarfo (2023) submit that tax evasion is a major socio-economic problem for developed and developing nations. Tax evasion is also considered to impact economic development negatively and reduce the ability of the government to finance necessary public services. For example, tax evasion is highlighted as it leads to a significant difference between expected tax revenue and what is gathered by governments (Lamaj, 2023:876). "Tax evasion," defined by Annan *et al.* (2014:97), is the variance between the estimated tax revenue determined by legal requirements and the actual revenue received by tax agencies. This deficit signifies a decrease in profits and points out inefficiencies in tax systems, which can be abused through illegal activities such as underreporting earnings or exaggerating costs.

Furthermore, tax evasion is a significant problem that requires additional examination, especially in emerging countries such as South Africa. The creation of a dedicated team within SARS focused on overseeing and ensuring adherence among wealthy individuals and those with intricate financial setups highlights the significance of tackling this issue (Department of National Treasury, 2021). In addition, Annan *et al.* (2014:101) contend that individuals who rely on wages and salaries for their primary source of income are at a lower risk of engaging in tax evasion, as tax authorities closely scrutinise their earnings. The discrepancy in tax evasion inclinations between wage earners and entrepreneurs poses essential questions that require additional investigation. It is important to investigate factors like the complexity of financial arrangements, the ability of tax authorities to enforce compliance, and the socio-economic influences on tax evasion behaviour among SMEs. Moreover, to create successful policy interventions, it is crucial to comprehend the deficiencies in the tax system that allow for tax evasion. This study on tax evasion focuses on small and medium-sized enterprises in Limpopo Province, South Africa. It is important to pinpoint these factors and suggest ways to decrease the tax deficit and improve the effectiveness of revenue collection. The following section presents the study's problem statement.

1.3 Problem Statement

Tax evasion has been thoroughly studied in developed and developing nations, with various researchers like Balafoutas *et al.* (2015), Lamaj (2023), Kaçamak (2024) and Amoh *et al.* (2023) pointing out its detrimental effect on government revenue. Yet, there is a significant void in studies that examine the reasons behind tax evasion on a localised scale, especially within certain regions or provinces. Tax revenues in South Africa, which mainly come from personal income tax (PIT), value-added tax (VAT), and corporate income tax (CIT), are essential for financing public programmes and infrastructure. Together, these three sources make up 82% of the total revenue collections in the country (SARS, 2021:2). Nonetheless, tax evasion continues to be a major concern, estimated to amount to R1.73 trillion, which is R56.1 billion less than expected in the 2023 Budget (Treasury South Africa, 2024:33).

Understanding the reasons behind tax evasion is crucial for policymakers to create effective solutions, given the significance of tax revenue for the country's economic growth. Tax evasion among SMEs at the provincial level in South Africa is not well studied despite its importance for economic growth globally. Small and medium-sized enterprises frequently encounter distinct difficulties in adhering to tax laws, which can lead to an inclination to avoid paying taxes. SARS has been working with the IRS-CI to combat tax evasion, but additional localised perspectives are needed to address the ongoing problem. Thus, this study examined the reasons behind tax evasion among small and medium enterprises in Limpopo Province, South Africa. By pinpointing these elements, the study offers a more profound insight into tax evasion conduct in this setting and suggests policy measures to enhance tax adherence and lessen the tax deficit in the region.

1.4 Aim of the Study

The aim of this study was to establish the determinants of tax evasion among SMEs in the Limpopo Province of South Africa to assist policymakers in enacting laws to minimise tax evasion.

1.5 Research Objectives

The research objectives that guided this study are:

- To identify the determinants of tax evasion by SMEs in Limpopo Province, and
- To assess the effect of the determinants on tax evasion by SMEs in Limpopo Province by:
 - a. Analysing the direction of the influence of various determinants on tax evasion by SMEs in Limpopo Province;
 - b. Evaluating the magnitude of the impact of these determinants on tax evasion behaviour of SMEs in Limpopo Province, and
 - c. Determining the significance of the effects of these determinants on tax evasion practices by SMEs in Limpopo Province.

1.6 Research Questions

From the objectives mentioned above, the study sought to answer the following questions:

- What are the determinants of SMEs' tax evasion in Limpopo Province?
- What is the effect of the determinants on tax evasion by SMEs in Limpopo Province?
 - a) What is the direction of the influence of various determinants on tax evasion by SMEs in Limpopo Provinces?
 - b) What is the magnitude of the impact of these determinants on tax evasion practices by SMEs in Limpopo Province?
 - c) How significant are the effects of these determinants on tax evasion practices by SMEs in Limpopo Province?

1.7 Justification of the Study

SARS in South Africa has put in place various tactics to decrease non-compliance, such as taking legal action and publicly naming SMEs that do not file their tax reports (SARS, 2021:4). Regardless of these attempts, tax evasion continues to be a prevalent problem in South Africa. SARS has managed to recoup billions in outstanding taxes, but the issue remains a major obstacle. The main goal of this study was to explore the factors that affect tax evasion in SMEs in Limpopo Province and examine how these factors influence tax evasion behaviours. Although earlier

researchers like Adebisi and Gbegi (2013:324), have pinpointed important factors leading to tax evasion, such as high tax rates, unfair public service distribution, mishandling of tax collection, and insufficient civic duty, there is lack of provincial-level studies on tax evasion in South Africa. This study thus sought to address this gap in knowledge by focusing on Limpopo Province, which makes up 9.9% of the country's population and is the fifth-largest province.

Tax authorities must understand SMEs' behaviour concerning tax compliance. This information will help SARS remain aware of tax evasion techniques and create specific plans to reduce non-compliance, ultimately boosting revenue collection. The results of this study are anticipated to offer guidance that can help reduce tax fraud at the provincial level and support the creation of successful policies. Furthermore, the study could also lead to more investigation into tax evasion in different provinces of South Africa.

1.8 Research Methodology

This study employed a structured methodology encompassing, among other components, research design, sampling, data collection, analysis, and ethical considerations to investigate the determinants of tax evasion among SMEs in Limpopo Province. These are discussed below.

1.8.1 Research Philosophy

The positivism paradigm influenced the study. It emphasises empirical evidence and quantitative research to reveal objective realities. The positivist methodology was chosen for its focus on testing hypotheses and deductive logic, as the study utilised a structured survey with closed-ended questionnaires.

1.8.2 Research Design

The study's research design was explanatory, aiming to pinpoint and examine the causal relationships among different factors affecting tax evasion, such as tax rates, penalty rates, likelihood of detection, and views on fiscal unfairness. This design was

selected to examine how these factors impact tax evasion behaviour in small and medium enterprises. The study aimed to reveal the root causes and patterns that lead to tax payment non-compliance by examining the identified variables.

The study employed a quantitative method suitable for gathering and examining numerical data in a structured manner. This approach enabled an accurate assessment of the influence of each factor on tax evasion and simplified statistical comparisons with previous studies. Using regression and exploratory factor analysis, the study quantified the relationships between independent variables (tax and penalty rates) and the dependent variable (tax evasion) regarding strength and direction. This quantitative method offered strong empirical proof and allowed for comparing these results with past studies, which helps gain a better insight into the factors behind tax evasion. Furthermore, it enabled the detection of important trends and patterns in the SME industry in Limpopo Province, providing valuable insights for policymakers working to decrease tax evasion on a provincial scale.

1.8.3 Data Collection and Analysis

The study used a structured survey with closed-ended questions to collect information from 210 small and medium-sized enterprises. The information was gathered by distributing a survey questionnaire to managers and owners of small and medium-sized enterprises (SMEs). The survey focused on demographic traits and tax evasion actions, with answers recorded using a Likert scale. For data analysis, relationships between factors influencing tax evasion and tax compliance were examined using Stata software through Exploratory Factor Analysis (EFA) and Ordinary Least Squares (OLS) regression.

1.8.4 Ethical Considerations

Ethical considerations were carefully followed during the entire research process. Participants were advised of their rights to participate voluntarily, maintain confidentiality, and remain anonymous. Approval was granted by the Research Ethics Committee at the University of Venda to ensure that the study followed ethical principles, including informed consent, privacy, and avoiding harm to participants.

Before the complete data collection, a pilot study was carried out to address and rectify data collection issues, enhancing the study's reliability and validity.

1.9 Delimitations

This study focused on surveying SMEs based in Limpopo Province, and its main objective was to establish the determinants of tax evasion in that province. The study did not consider natural taxpayers as part of the population, as the risk of tax evasion is lower in natural persons whose primary income is salaries or wages. It was evidenced from the reviewed literature that tax evasion is an interesting topic for academic research; however, most researchers (Kassa, 2021; Tereza & Hana, 2021; Kimea, Mkhize & Maama, 2023) focus on determining factors of tax evasion at country level; hence, this study opted to focus on determining factors of tax evasion for a section of the country, in this case a province. The study also adopted close-ended Likert scale responses in this survey, as previous studies such as Richardson (2006), Adebisi and Gbegi (2013), Gumus (2013), and Balafoutas *et al.* (2015) showed that it is difficult to get valid data from respondents about tax evasion as they were not sure if the researcher would not report them to SARS.

1.10 Assumptions

One of the assumptions of this study was that the respondents were owners and or managers of the businesses; therefore, they would necessarily know the process of paying taxes on behalf of the entities they own or manage. The other assumption is that the respondents are honest; hence, their responses are truthful.

1.11 Definition of Key Terms

The following terms applied to this study:

Tax evasion: refers to the deliberate act of not fulfilling the obligation to remit taxes, in which the taxpayer abstains from fulfilling the required payment that would be

applicable if a comprehensive and truthful disclosure of income and eligible deductions were provided (Haupt, 2012).

Limpopo Province: is the fifth largest of South Africa's nine provinces, with its capital city being Polokwane. The name is adopted from the Limpopo River that flows along the country's northern border (Limpopo Provincial Government, 2023).

Taxpayer: In this study taxpayer is a small business "SME" that is obligated to pay taxes and forms part of the primary source of revenue for the government (SARS Annual Report, 2020-2021).

Tax revenue: refers to the income generated by the government through taxing people or companies, such as SMEs (SARS Annual Report, 2020-2021).

Tax avoidance: pertains to endeavours aimed at diminishing an individual's tax responsibility without modifying their consumption basket, as outlined by Slemrod and Yitzhaki (2002:1428).

SARS: Functions as the official entity responsible for collecting taxes within the country. Established as an independent agency in accordance with the SARS Act 34 of 1997, it operates as the nation's tax-collecting authority (SARS, 2023).

1.12 Structure of the Study

This dissertation comprises five (5) chapters, as follows:

Chapter one: Overview of the study

This chapter, in essence, introduces the area of the study and highlights the most important aspects of the study, namely background, problem statement, the aim of the study, research questions, research objectives, justification of the study, brief methodology, delimitations, assumptions, and the structure of the study.

Chapter two: Review of Literature

This chapter reviews, analyses, and discusses the literature focusing on determinants of tax evasion, the effects of such determinants, and the direction of influence of these determinants.

Chapter three: Methodology

Chapter 3 discusses the research methods, research design, sampling, data collection, data analysis, and ethical considerations adhered to during the study.

Chapter four: Data analysis and discussions

In this chapter, the study's results on the relationship between determinants and tax evasion, as well as the effects of such determinants and the direction of influence of these determinants with the literature reviewed, are presented.

Chapter five: Conclusions and recommendations

This chapter offers a summary and recommendations of the study for stakeholders and future researchers.

1.13 Conclusion

This chapter provided an overview of the study, which focused on the determinants of tax evasion. It also highlighted the problem of the study, the questions, the objectives, and the justification of the study. The following chapter reviews the extant literature and serves as the basis for the methodology and theory adopted for the study.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

This chapter examines the existing literature. This study aimed to establish the determinants of tax evasion among SMEs in the Limpopo Province of South Africa to assist policymakers in enacting laws to minimise tax evasion. The chapter reviews research on what influences tax dodging behaviour among SMEs, emphasising the identification of crucial factors affecting tax compliance. The review analyses past research on tax rates, compliance costs, system complexity, tax authorities' role, and the general economic environment. These factors are examined in terms of how they affect tax evasion among SMEs.

The literature review starts by evaluating the distinction between tax avoidance and tax evasion. Subsequently, literature about the factors that lead to tax evasion, especially within developing countries such as South Africa, is reviewed in line with the study goals. After that, the review covers the impact of these factors on tax evasion behaviours within SMEs. This includes analysing the extent to which these influences affect tax compliance, whether positively or negatively. Ultimately, the assessment concentrated on literature about the importance of these factors, shedding light on the varying degrees to which each determinant impacts the probability of tax evasion among small and medium-sized enterprises. The study sought to develop a thorough understanding of SMEs' difficulties in meeting tax obligations and provide a foundation for policy recommendations to decrease tax evasion in the area.

2.2 Distinction Between Tax Avoidance and Tax Evasion

According to Haryanto (2023:33) and Dianova (2023:750), tax evasion and tax avoidance are closely related but have different legal implications, namely that tax evasion is unlawful, while tax avoidance is not. From an economic point of view, both actions have comparable impacts on government earnings, the post-tax profits of

small and medium enterprises, and general fiscal equity. Alsmady (2023:1) proposes that tax evasion and avoidance may not differ, suggesting a potential complementary or substitutive connection. In a progressive tax system, avoiding taxes may lessen the extra advantages of evading taxes and vice versa. In addition, there could be a relationship between the expenses linked to either one since the data required to avoid taxes could also uncover potential evasion tactics and vice versa. The following section details the distinction between tax avoidance and tax evasion.

2.2.1 Tax avoidance

Tax avoidance is when small and medium enterprises use tactics to lower their tax responsibility without changing how much they consume (Anesa & Bressan, 2024). This may involve strategies like converting regular income to capital gains or transforming a personal loan into a home equity loan for better tax advantages. Dianova (2023:750) explains that tax avoidance utilises legal loopholes to reduce taxes, which are legal even though they take advantage of gaps in the tax system. By utilising these tactics, companies can legally reduce their tax liabilities without significant changes to their business operations or spending patterns. Although tax avoidance is not illegal, it can lead to ethical issues and diminish trust in the tax system by shrinking the tax base, impacting government earnings and fiscal fairness.

2.2.2 Tax evasion

Stiglingh, Koekemoer, van Heerden, Wilcocks & van der Zwan (2020) define tax evasion as deliberate illegal actions by small and medium enterprises to reduce their tax responsibility. Concerning income tax, tax evasion often involves intentionally not paying taxes that should be paid if the SMEs accurately disclosed their income and allowed deductions. Usually, this includes either deceitful failure to reveal income or intentionally exaggerating deductible expenses and fabricating returns, records, and accounts, which makes tax evasion illegal (Prebble & Prebble, 2009:693; Blesse, 2023:44).

2.3 Theoretical Review: Economic Deterrence Theory

To understand tax evasion, it is crucial to grasp the main factors affecting this conduct in small and medium-sized enterprises. A variable is any measurable factor, characteristic, or circumstance that can vary or be modified during an investigation. Variables are usually classified as either dependent or independent. The dependent variable is what is being studied, while independent variables are the factors that are believed to impact or predict the dependent variable. This study focused on tax evasion as the dependent variable and examined the factors influencing tax evasion behaviour as the independent variable. These factors include the likelihood of being caught, the design of the tax rate structure, elevated tax rates, perceived injustice in taxation, the framework of the tax setup, financial disparity, and the absence of ethical duty. The literature indicates that each of these factors influences the decision of an SME to avoid paying taxes. Economic deterrence theory underpins this study and is presented in the following section.

2.3.1 Economic Deterrence Theory

Economic Deterrence Theory (EDT) states that people and companies make rational choices by considering the advantages and drawbacks before deciding to follow tax laws or commit tax fraud (Kim, 2023:424). Based on this theory, the choice to avoid paying taxes is determined by weighing the benefits against the risk. For example, suppose the expected financial gains from evasion (such as tax savings) outweigh the potential consequences and penalties (like fines or legal troubles), the probability of tax evasion rises (Matar, 2023). The theory highlights crucial elements like the likelihood of being caught, the seriousness of potential penalties, and the potential financial benefits of avoiding detection, all of which influence decision-making in this process.

In this study on factors influencing tax evasion in small and medium-sized enterprises, Economic Deterrence Theory provides a strong theoretical basis for analysing how these companies deal with tax adherence. The independent variables identified in the study, namely high tax rates, likelihood of being caught, perceived injustice in the tax system, and moral duty, closely match the main components of this theory. For instance, Tsaschikher (2023:87) states that small and medium-sized enterprises might view steep tax rates as a significant financial obstacle, causing them to assess the

possible financial gain of avoiding paying taxes. Moreover, the likelihood of being caught is also significant; if small and medium enterprises think that tax authorities will not find out about their tax evasion, the perceived risk of evading taxes lowers, making it a more attractive option (Matar, 2023). The perception of unfairness in the tax system can also decrease their feeling of moral duty to follow the rules, affecting their choice to engage in tax evasion. By incorporating the economic logic proposed in the theory, this study can examine how small and medium-sized enterprises evaluate and react to these different aspects, revealing why some enterprises avoid taxes while others adhere to the rules. Tsaschikher (2023:88) addresses the complex relationship between tax rates and tax evasion, noting that when penalties are imposed on underreported income, the effect of higher tax rates on evasion is ambiguous. Building on the theory, if penalties are applied to the amount of tax evaded rather than to the income itself, the uncertainty diminishes, suggesting a negative relationship between tax rates and tax evasion. This insight challenges the common assumption that higher tax rates inherently increase evasion.

Based on the EDT, Folloni and Baldani-Miranda (2024:928) offer an economic explanation, highlighting that when penalties are tied to the amount of evaded tax, an increase in tax rates also raises both the ordinary tax and the penalties, thus discouraging evasion. However, Kaçamak (2024:14) suggests that when penalties are based on the amount of income evaded, higher tax rates might encourage tax evasion, as the perceived benefits of underreporting income increase. Supporting this perspective, Mansor (2016:166) observes a positive relationship between higher tax rates and tax evasion, proposing that SMEs may view elevated tax rates as opportunities to evade taxes through income underreporting. Several effects lead to tax evasion.

2.3.2 The Effect of the Shape of the Tax Rate Schedule

This section critically examines the idea that a progressive tax rate system promotes tax evasion and leads to decreased government income compared to a proportional tax system. The basis for this assertion is rooted in the idea that different tax systems (progressive, proportional, and regressive) generate different amounts of revenue when tax evasion is widespread. Haraguş, Tamas-Szora and Tamas-Szora (2023:199) propose that in this scenario, a regressive tax system would bring in the

most revenue, with a proportional tax system performing better than a progressive one where tax evasion is common. The effect of a progressive tax system on income is still a topic of discussion. Coibion, Georgarakos, Gorodnichenko, Kenny and Weber (2024:648) point out the uncertainty regarding whether people report a higher or lower percentage of their income as their income increases. Haupt (2012) further suggest that a progressive tax system can encourage people to engage in tax evasion, resulting in lower government income. The differences in these results mainly stem from varying assumptions regarding the risk preferences of SMEs. Although theoretical backing supports the argument that a progressive tax system could result in increased tax evasion and reduced government income, this connection is influenced by the risk tolerance of SMEs.

2.3.3 The Impact of Penalty Rate

Mansor (2016:169), Tsaschikher (2023:88) and Dare (2020:22) point out that penalties are crucial in discouraging tax evasion. Small businesses are more inclined to commit tax fraud if the chances of their tax documents being reviewed are low and the consequences for fraud are not severe, as stated by Oberholzer and Stack (2014a:227). Raising the penalty rate will increase reported income levels. Nonetheless, the effectiveness of sanctions in deterring behaviour is not clear-cut, as their influence weakens with decreased chances of being caught, regardless of how severe the punishment is. Therefore, the general impact of fines on tax evasion is unclear in this scenario. As such, the following section reviews the literature on SMEs' perceptions of tax evasion and tax compliance.

2.4. Small and Medium-Sized Enterprises' Perceptions of Tax Evasion and Tax Compliance

South Africa's diverse cultural, linguistic, religious, and historical backgrounds likely lead to differing attitudes towards tax evasion and compliance among its various population groups. Oberholzer and Stack (2014b:251) note that each faction's distinct cultural, political, and social backgrounds influence these viewpoints. In addition, Mansor (2016:170) emphasises that the perceived success of the government in keeping unemployment rates low significantly impacts SMEs' choices on whether to

follow tax regulations. The overall perception of tax evasion is influenced by a combination of factors rooted in the socio-political and economic environment.

Besides cultural influences, economic circumstances also have a significant impact. Bani-Mustafa *et al.*, (2024:101) suggest that how SMEs view the government's performance, especially in handling unemployment, substantially impacts their compliance with tax laws. On one hand, if SMEs perceive the government as successful in enhancing job opportunities and providing public services, they might be more willing to pay their fair share. On the other hand, in times of high unemployment and perceived government ineffectiveness, SMEs might see tax evasion as a legitimate reaction to what they perceive as the government not fulfilling its duties.

The intricate relationship among cultural, social, and economic influences underscores the complexity of tax evasion in South Africa. SMEs' choices are influenced by more than just financial considerations, but also by their views on fairness, the state's legitimacy, and their trust in public institutions. This in-depth comprehension allows a more thorough examination of how cultural identity, economic circumstances, and social norms influence people's decisions to follow or violate tax regulations. This brings us to studying tax evasion perception and exploring how SMEs' opinions on equity, government effectiveness, and social norms impact their choice to engage in or avoid tax evasion. It is essential to grasp these impressions to create plans for enhancing tax compliance among SMEs in the Limpopo Province of South Africa.

2.4.1 Tax Evasion Perception

Mansor (2016:166) stresses that many small and medium-sized enterprises believe that it is acceptable for regular people to evade taxes because they often see wealthy individuals and important individuals getting away with it. This belief promotes a feeling of unfairness and feeds into the idea that the tax system is prejudiced or unfair, motivating small and medium enterprises to engage in the same actions. The concept that wealthy individuals can avoid paying taxes without consequences erodes confidence in the tax system and reduces the ethical obligation to follow tax regulations. Some argue that although tax evasion is illegal, it may be morally justified in certain circumstances. When small and medium enterprises believe that the government is not using their tax payments properly, such as through corruption or

inefficiency, they may see not paying taxes as a valid way to express dissatisfaction. According to Oberholzer and Stack (2014b:266), this belief may diminish the sense of responsibility to pay taxes, as SMEs doubt if their payments are being utilised effectively and fairly. In such situations, SMEs may believe avoiding paying taxes on moral grounds is justified, even if they know the legal implications.

In this situation, moral duty can discourage tax evasion. Small and medium-sized enterprises (SMEs) with a strong sense of moral obligation to support society and the government are less inclined to participate in tax evasion, even if they believe the government is inefficient or the tax system is unfair. Yet, this moral dedication is not set in stone; it can be swayed by the behaviour of fellow members in the business realm. According to Palil, Akir and Ahmad (2013:120), small and medium-sized enterprises are frequently impacted by the actions and mindsets of their colleagues.

2.4.2 Tax Compliance Perception

Tax compliance refers to an SME's adherence to the tax regulations in their country (Anesa & Bressan, 2024). It emphasises the relationship between SMEs and the regulations established by tax authorities within a nation. According to Kotsogiannis, Salvadori, Karangwa and Mukamana (2024), compliance is not limited to tax payment but also involves accurately declaring income and adhering to various tax regulations essential for the effective functioning of a tax system. Governments depend on people paying their taxes to ensure a steady flow of income, which is used to finance public services and uphold economic stability. Hence, SMEs can comply with taxes voluntarily or be compelled to do so through penalties and legal actions to ensure adherence to tax regulations (Palili *et al.*, 2013:124). According to Idrus (2024:889) and Naape (2023:14), the significance of tax administrators lies in their ability to promote compliance by implementing an efficient, transparent tax system, which can decrease the need for enforcement measures like audits or fines and foster trust between SMEs and government agencies.

Moreover, their perceptions of the tax system influence SMEs' willingness to pay taxes independently (Kalleitner & Bobzien, 2024:535). SMEs' perceptions of the tax system's fairness and transparency influence whether they will comply willingly or choose not to comply based on unfairness or difficulty. This emphasises the importance of

improving SMEs' interactions with the tax system to increase compliance rates, as highlighted by Hoy, McKenzie and Sinning (2024:691) and Hyera and Isango (2024:46). Accordingly, SMEs' perspectives are shaped by elements like the clarity of tax laws and the ease of filing and paying taxes on time. Moreover, effectively managing requests and disputes with tax authorities who receive tax revenues also shapes perceptions (Alsmady, 2023:1). In the end, SMEs may be more likely to follow tax regulations if they believe their contributions are being used efficiently for public services. On the other hand, if small and medium enterprises (SMEs) witness corruption or mismanagement of tax funds, they may lose confidence and refuse to meet their tax obligations. Tax authorities should go beyond enforcing tax laws and concentrate on establishing relationships with SMEs by simplifying tax processes and aiding them in understanding their obligations more effectively (Hoy *et al.*, 2024:702). This indicates that SARS can accomplish this goal by implementing user-friendly tax filing systems and providing readily available information about tax regulations, along with quickly addressing any inquiries from SMEs. Improving adherence can be achieved by educating the public on the importance of paying taxes through campaigns, which can sway public opinion towards compliance (Mrindoko & Nyange, 2024:54; Hyera & Isango, 2024:46).

Countries with effective or corrupt tax systems experience higher tax evasion rates than countries with transparent and efficient tax systems (Bani-Mustafa *et al.*, 2024:95). In such cases, SMEs might perceive the burden of following tax rules as not worthwhile, making them more inclined to evade taxes, especially if they think tax regulations are unfairly implemented or excessively complicated. Mrindoko and Nyange (2024:4) suggest that tax authorities of countries frequently encounter difficulties in achieving compliance without using severe methods. This can deteriorate the relationship between SMEs and authorities, leading to a pattern of tax enforcement actions. Ultimately, the key point is that tax law compliance is influenced by how SMEs and tax authorities communicate. According to Brandy (2023:1) and Prebble and Prebble (2009:693), various factors, such as SMEs' attitudes and perceptions towards taxes and the efficiency of tax administration, play a crucial role in boosting compliance levels. Therefore, a tax system that is fair, transparent, and easy to use can significantly increase compliance and voluntary adherence to taxation, ultimately reducing the need for costly enforcement actions and lessening the burden on SMEs.

Systems perceived as unfair, complex, or inefficient are likely to face higher rates of noncompliance. Owing to this fact, tax authorities must develop methods to motivate SMEs to comply with regulations through positive interactions while implementing strict measures to crack down on tax evasion. The next part provides an analysis of existing literature on SMEs' opinions of tax fines.

2.5 Attitude towards Tax Penalties

Tax compliance is crucial in South Africa's fiscal policies and economic structure. Failing to adhere to tax laws, for example through tax evasion, is viewed as a grave violation, leading to harsh repercussions (Haruna, Ibrahim, Yusuf & Ardo, 2023:80; Matar, 2023). Tax penalties in South Africa are designed to deter evasion and ensure compliance with tax responsibilities for both individuals and entities. Ostermann, Link and Hyatt (2024:331) state that the consequences vary from monetary fines to legal ramifications, such as incarceration in severe instances. SARS is responsible for implementing these penalties and upholding a strong infrastructure to encourage tax compliance in all parts of the economy. Nonetheless, tax evasion has repercussions. These are explored below.

2.5.1 Tax Evasion and its Consequences

Deliberately underreporting income or falsifying financial statements to reduce tax liability is considered a serious crime in South Africa (Blesse, 2023:44; Farrar & King, 2023:310; Okafor, 2023:377). Penalties for these violations differ based on the seriousness and type of the offense. In most cases, individuals evading taxes can expect monetary penalties, imprisonment, or a combination of consequences (Ostermann *et al.*, 2024:331). Monetary penalties for tax evasion may be in the form of set amounts or fines based on a percentage of the evaded tax. As Dare (2020:22) explains, the consequences of not filing a tax return depend on a set fee structure that considers the taxable income of the person or business involved. The fees vary from R250 to R16,000 per month, based on how serious the non-compliance is (SARS, 2024:1). This indicates that SMEs who consistently do not submit tax returns may accumulate substantial penalties as time goes on. These fines can place significant

financial pressures on small and medium-sized enterprises. These are discussed further below.

i. **Penalties for SMEs**

Tax compliance is essential to South Africa's fiscal policies and economic structure. Failure to adhere to tax regulations, which includes deliberately avoiding taxes, is seen as a significant violation that results in harsh consequences. The punishment system for failing to report or downplay tax obligations accurately for small and medium-sized enterprises is particularly severe. According to Dare (2020:22), small and medium enterprises could encounter fines of up to 150% of the sum by which they reduced their tax obligation to avoid paying taxes. This penalty system shows the South African government's firm approach towards tax evasion, especially for businesses trying to lower their tax liability through deceitful methods (Naape, 2023:26). These penalties can be especially devastating for SMEs, which are commonly regarded as the foundation of South Africa's economy (Ostermann *et al.*, 2024:363). Numerous small and medium-sized enterprises work with restricted financial resources and might be unable to handle such hefty fines. The possibility of facing penalties is a deterrent for businesses, motivating them to follow tax laws and truthfully report their earnings (SARS, 2021:1). Besides penalties for inaccurate reporting and non-submitting tax returns, South Africa's tax laws also have other significant penalties to discourage tax non-compliance.

ii. **Late Payment Penalties**

Should SMEs not pay their tax bill by the due date, SARS enforces a penalty for late payment. The penalty usually equals 10% of unpaid tax after the deadline. The fine is included in the total tax owed to motivate prompt tax payment (Oberholzer & Stack, 2014b:251). Although this fine may appear fair, it can burden small and medium-sized enterprises already facing challenges in managing their cash flow. The accumulating penalty can result in businesses owing even more money if they cannot make prompt payments.

iii. **Interest on Unpaid Taxes**

Interest is applied to outstanding taxes on top of the 10% fee for late payments. This interest is computed according to the official interest rate set by SARS. It is charged

on any outstanding tax debt from the day following the deadline until the entire payment is settled (SARS, 2020:3). This guarantees that SMEs who do not comply are penalised for delayed payments and the missed tax's time value. Accrued interest can result in significant financial difficulties for individuals who postpone making payments.

iv. **Penalties for Non-Disclosure of Foreign Income**

SARS enforces strict penalties for individuals and entities not reporting income earned abroad. To enforce proper taxation of all income earned by South African residents worldwide, SARS charges a penalty of up to 200% for undisclosed foreign income in tax returns (Oberholzer & Stack, 2014b:256). This punishment shows the government's attention to fighting tax avoidance tactics, especially among wealthy individuals and big companies that might try to move earnings to areas with lower taxes. The next part examines the differences in tax penalties between South Africa and other nations.

2.6. Comparison of Tax Penalties in South Africa and other Countries

The tax penalty system in South Africa is considerably stricter than that of other countries. Tax penalties in numerous other nations aim to promote compliance by combining financial penalties with rewards for voluntary disclosure. The IRS usually imposes fines for late payments or not following rules in the United States. Still, it also provides options for taxpayers to voluntarily report underreported income and lessen penalties. The Offshore Voluntary Disclosure Program (OVDP) is one of the programmes that enables SMEs to prevent criminal charges and lower penalties by voluntarily disclosing their information (Oberholzer & Stack, 2014a:228). Conversely, South Africa's penalties are usually harsher. One example is the potential fine for not reporting overseas earnings in South Africa, which can be as high as 200%, unlike the lower penalties in other nations. Likewise, the penalty of 150% for inaccurately reporting tax obligations is significantly greater than the norm in other locations. The significant penalties demonstrate South Africa's firm approach to tax compliance and its broader attempt to address tax evasion, especially within businesses and wealthy individuals.

Nonetheless, this strict penalty system might result in unintended outcomes, especially for small and medium-sized enterprises. Although the primary purpose of the fines is to discourage non-adherence, they can also place a heavy financial strain on companies with limited profit margins. The high expense of not meeting regulations can jeopardise the existence of Small and Medium Enterprises (SMEs), crucial for the nation's economic progress. There is a continuing discussion on whether the existing penalty system effectively balances the discouragement of tax evasion and the promotion of small business growth (SARS, 2024:1).

2.7. Public Perception of Tax Penalties

There is a varied public perception of tax penalties in South Africa. There is widespread agreement that tax evaders, especially wealthy individuals or big companies, should face consequences for not paying their fair share of taxes. However, some claim that the penalty system is excessively severe, specifically for small and medium-sized enterprises and individual taxpayers who may find it challenging to navigate the intricacies of the tax system. SMEs might develop a confrontational attitude towards SARS owing to the potential of facing hefty fines, which could deter them from actively working with tax authorities to address compliance concerns. Rather than promoting a culture of willingly following the rules, the existing system of penalties could make businesses less inclined to ask for assistance from SARS, resulting in increased non-compliance (Oberholzer & Stack, 2014a:239). Furthermore, there is a common perception that SARS tends to be more forgiving towards big companies, potentially allowing them to receive reduced penalties through legal negotiations. At the same time, small and medium enterprises are left to bear the full impact of the penalty system.

2.7.1 The Role of SARS in Promoting Tax Compliance

The South African Revenue Service is vital in ensuring tax compliance nationwide. To reach this objective, SARS uses different enforcement measures like audits, investigations, and penalties. The penalty system is a crucial tool in SARS' enforcement toolbox, aimed at preventing tax evasion and promoting prompt and precise income reporting. Although penalties are necessary to enforce compliance, it

is equally important for SARS to offer additional support and education to SMEs. Numerous taxpayers, especially small and medium-sized enterprises, could inadvertently violate tax regulations because they lack the knowledge or means to navigate the intricate tax system. SARS could lower non-compliance and lessen harsh penalties by providing SMEs with additional guidance and support (SARS, 2024:1)

Ultimately, the success of the tax penalty system relies on finding a good balance between discouraging noncompliance and promoting voluntary cooperation. SARS can encourage compliance in the South African tax system by offering SMEs the assistance and tools necessary to fulfil their tax duties, decreasing the need for harsh penalties. South Africa's system of tax penalties demonstrates the government's firm dedication to ensuring tax adherence and preventing tax evasion. Although the fines are a strong deterrent for big companies and wealthy individuals, they also present significant obstacles for small businesses. The penalty system, which involves monetary fines, interest fees, and potentially imprisonment in severe circumstances, is among the most rigorous worldwide. Nevertheless, it needs to find a middle ground between discouraging violations and assisting SMEs in fulfilling their duties for the penalty system to work effectively. By providing increased education and resources to companies, especially small and medium-sized enterprises, SARS could promote a culture of voluntary compliance, ultimately decreasing the necessity for enforcement measures.

2.8 Conclusion

Ensuring that SMEs adhere to their obligations is crucial for fiscal policy worldwide, and penalties for tax evasion play a key role in achieving this. Tax evasion is considered a severe crime in South Africa, which has one of the strictest penalty systems globally. The current literature highlights the seriousness of the consequences faced by individuals and small to medium enterprises, especially in cases of not correctly reporting income or neglecting to file tax forms. In literature, it is widely agreed that penalties are necessary for discouraging non-compliance, but the strict South African tax penalty system may have unforeseen effects on small businesses. Therefore, although these fines can discourage tax fraud, they can also

damage the viability of small enterprises, which are crucial for South Africa's economy to thrive.

The literature also contrasts South Africa's tax penalty system with other nations. In numerous other countries, penalty systems are often less strict, offering options for voluntary disclosure and decreased penalties for failure to comply. In contrast, South Africa's penalty system is still harsh, particularly for failing to disclose foreign income, which could result in up to 200% penalties. This is considered an extreme measure compared to other places with lower percentage caps on penalties for not disclosing information. Regarding punishments, studies list various critical punishments aside from those given for not filing tax returns or underreporting tax obligations. The significance of late payment penalties equates to 10% of the tax amount owed, along with interest fees for any overdue taxes. The accumulating penalties can result in large debts for businesses that cannot make timely payments, worsening financial stress on SMEs. The addition of punishments for failure to reveal foreign earnings demonstrates South Africa's emphasis on addressing tax evasion tactics, significantly impacting multinational companies and wealthy individuals. Although the current research extensively studies the tax penalty system in South Africa, there is minimal exploration of how this system affects tax compliance behaviour among SMEs. The system has been chiefly concerned with punishment, neglecting alternatives like education, tax advice, or leniency programmes to help businesses meet their tax duties. In addition, there is lack of knowledge about how much fear of consequences might impact the willingness of smaller firms to follow SARS regulations owing to the challenges they face with tax procedures.

Even though the literature provides a detailed analysis of tax penalties in South Africa, there are still areas that need to be more thoroughly researched. While the topic of penalties for SMEs is explored, there is limited research regarding the efficiency of other ways to ensure compliance, such as SMEs education, advisory services, or leniency programmes. The connection between penalties and voluntary compliance in SMEs has not been thoroughly investigated. Furthermore, current research does not thoroughly investigate if severe penalties deter companies from actively working with SARS to address tax concerns. Further research is needed to comprehend how South Africa's tax penalty framework affects behaviour in this area. A comparison of South Africa's tax penalties with those of other countries has been made, but further research

is required to investigate the lasting effects of these systems on compliance rates and economic growth, especially for small businesses. There is lack of literature on how the public perceives tax penalties, whether they consider them fair, and how this impacts their compliance with tax laws. By filling these gaps, upcoming studies may offer a comprehensive view of the efficiency of South Africa's tax penalty system and suggest improvements that deter tax evasion and assist small and medium enterprises.

CHAPTER 3

RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

This chapter discusses the research paradigm, followed by research design and research methods, including study population, sampling, data collection, data analysis, and ethical consideration of the study. Kivunja and Kuyini (2017:27) point out that the research methodology expresses the logic and flow of the systematic method to be followed in conducting research.

3.2 Research Paradigm

Kivunja and Kuyini (2017:26) articulate that researchers must explicitly identify the paradigm guiding their research, as it fundamentally influences the researcher's methodology and approach. A paradigm, they propose, declares the researcher's worldview, shaping the study's fundamental rationale and interpretive framework for data analysis. Furthermore, Kamal (2019:1386) and Alharahsheh and Pius (2020:41) emphasise the importance of researchers possessing a clear understanding of the concepts of truth and knowledge, as this comprehension fundamentally moulds their perceptions and interpretations of the world.

The construction of a research paradigm, according to Alharahsheh and Pius (2020:40), is anchored on four elemental components, namely epistemology, which focuses on the researcher's approach to knowledge acquisition and discernment of truth; ontology, concerning the nature of reality; methodology, detailing the procedural approach of the research, and axiology, reflecting the researcher's values. Kamal (2019:1386) identifies several predominant research paradigms in educational research, including positivist, interpretivist, critical, and pragmatic paradigms.

The current study was conducted within the framework of the positivism paradigm. This paradigm views research through a lens akin to the scientific method, utilising empirical investigations, such as experiments and statistical analysis, to uncover societal truths. Research within this paradigm is characterised by deductive reasoning,

the development and testing of hypotheses, and a quantitative methodology to formulate conclusions.

3.2.1 Justification of Positivism Paradigm

This study adopted a positivism paradigm because it is the best platform to discover the truth or knowledge about a phenomenon about which little is known. This paradigm focuses on developing and empirically testing existing theories (Cornelissen, 2023). Furthermore, the outcome of the study is reliant on a theory and follows an objective search of facts. Most importantly, the researcher's decisive objective is to determine a broad universal theory to account for human and social behaviour (Kivunja & Kuyini, 2017:31).

A deductive research approach is one that people typically associate with scientific investigation. According to Cornelissen (2023), the researcher studies what others have done, reads existing theories of whatever phenomenon they are studying, and then tests hypotheses that emerge from those theories. As such, this study used a close-ended questionnaire, a quantitative approach under the deductive approach through which the data collected are used to compare results with other findings on an existing theory (Alharahsheh & Pius 2020:41). The close-ended questions were chosen as several studies have shown that it is difficult to obtain valid data on tax evasion with other types of data-collecting instruments, as people often are afraid to tell the whole truth with regards to tax, believing the researcher wants to hand them over to SARS (Kamal 2019; Sithebe, 2022; Naape 2023; Idrus, 2024). The following section presents the research design and several methods used in the study.

3.3. Research Design and Methods

Van Wyk (2012:14) states that a research design is the plan that is followed to achieve the research objectives. In addition, Mansor (2016:167) point out that the research design and methods represent the core of the procedures for the study since they provide details for collecting and analysing the required information. These details "explicate what data is needed; what methods are to be used to collect and analyse this data, and how all of these processes will be used to answer the research

questions” (van Wyk, 2012:4). The research design adopted for this study is described in the following section.

3.3.1. Research Design

The categorisation of research design delineates the intent and structure of the inquiry into various types, including exploration, description, explanation, prediction, evaluation, and historical analysis, as outlined by Wyk (2015:15). The present study embraced an explanatory design, alternatively termed “analytical study”. This design primarily aims to unearth causal relationships among factors or variables associated with the research problem, a focus emphasised in the work of Kabir (2016:20).

The study used primary data collected using a structured questionnaire, as shown in Annexure A. The information collected was analysed by a statistician. Van Wyk (2012:4) avers that to execute suitable research, the process needs to be designed in terms of its determination, process, logic, and outcome. In terms of this study's determination, the study's purpose was to establish the determinants of tax evasion by SMEs in Limpopo Province. The main problem that required an answer was *Why SMEs in the Limpopo Province evade tax*. A preliminary view of how SMEs evade tax subjects was established from the existing literature, which determined the theoretical framework. The researcher intends to share the outcomes of this study with the tax authority concerning tax evaders to enable the former to create guidelines to avert tax evasion and collect sufficient tax revenue at provincial level. In other words, policymakers will be informed on ways to enact laws that minimise tax evasion. The following section presents the research methods adopted in the study.

3.3.2 Data collection

Data collection is the structured procedure to gather, measure, and analyse precise and pertinent data to answer the study questions, test hypotheses, or evaluate the results. It is essential to the study and decision-making across different disciplines. This procedure includes selecting appropriate methods and tools to ensure the data collected are reliable and valid for the study's specific objectives (Creswell & Poth, 2022; Sithebe, 2022). The approaches differ as they must be aligned with the study

goals, design, and availability of resources and may include adopting quantitative or qualitative techniques (Creswell & Poth, 2022).

There are three major types of data collection, namely quantitative data collection, qualitative data collection, and mixed-methods data collection (Sithebe 2022). A study may adopt a data collection method that falls under a certain type of data collection, such as surveys and questionnaires, interviews, focus groups, observations, experiments, case studies, document and content analysis, and online data collection (Sithebe 2022). The current study employed a quantitative method.

The quantitative method is suitable for gathering and examining numerical data in a structured manner (Creswell & Poth, 2022). This method consists of surveys and questionnaires, experiments, and observation methods. This study deployed the self-administered questionnaire method. The rationale for adopting the self-administered questionnaire method of data collection was that it is cost-effective and efficient for collecting large amounts of data. The self-administered questionnaire method refers to the structured set of questions for a target audience and collecting and analysing the responses (Ball, 2019:413). A questionnaire is usually selected as the preferred instrument for data collection in cases involving human behaviour, such as tax evasion. As Kabir (2016:20) suggests, the most effective way to collect data is by using this method, as it allows for the efficient collection of standardised information from a wide range of people. This study used a questionnaire to explore how demographic factors are linked to tax evasion behaviour, offering quantitative insights into patterns and attitudes.

In creating the questionnaire, the study referenced previous studies (Amoh *et al.*, 2023; Alsmady, 2023; Coibion *et al.*, 2024) on tax evasion behaviours and social psychology to cover essential topics in the questions. The study adhered to survey design best practices by using precise language, formulating unbiased questions, and ensuring the questionnaire was thorough but not too long to prevent respondent fatigue (Stantcheva, 2023:207). Conducting a pilot test on the questionnaire with a small group assisted in clarifying questions for better comprehension. As such, the rationale for having two sections in the questionnaire is presented below.

3.3.2.1. Rationale for Section A and Section B

Section A (Demographics)

This part was created to gather information on the respondents' fundamental traits like age, gender, income level, and education. Understanding demographics is essential to grasp how various social, economic, and cultural aspects can impact an individual's propensity to participate in tax evasion. This part establishes the basis for relationship or regression analysis connecting respondent traits to respondent behaviours or attitudes.

Part B (Illegal Tax Evasion Actions)

This section covered behaviours and attitudes toward tax evasion. A Likert scale was utilised to assess the strength of participants' emotions and convictions, allowing the researcher to assess different levels of agreement or disagreement with statements. This scale was selected because it offers a detailed comprehension of participants' viewpoints, going beyond basic binary responses to delve into the intricacies of actions and viewpoints.

3.3.2.2. Administration Method

The questionnaire was administered online to ensure that a broad range of respondents could be reached, regardless of location. The online format also offered the convenience of data collection and allowed respondents to complete the survey at their own pace (Ball, 2019:413). In addition, this method minimised the potential for interviewer bias that might occur in face-to-face settings. However, depending on the target population, a face-to-face method could also have been effective, especially in areas with low internet accessibility. A Likert scale was used for several reasons, including:

i. Equilibrium

It provides a neutral position (neither agreeing nor disagreeing) that allows survey participants to show uncertainty or lack of a strong opinion (Kozlowski & Van Gunten, 2023:477). As such, with a scale of five points, there is a clear separation between

varying degrees of agreement and disagreement, avoiding the confusion and decision-making challenges that can arise from too many options for respondents.

ii. Statistical Sensitivity

The 5-point scale can pick up on minor attitude differences yet remains straightforward for respondents to answer (Cowan, Hout & Perrett, 2022:1). This scale allows for statistical analyses to measure attitudes with varying intensity, something that binary responses cannot achieve. Using a Likert scale in this study allowed for capturing nuanced attitudes toward tax evasion, essential when exploring behaviour that multiple factors may influence. The following section presents information about the study population.

3.4 Study Population and sample size

According to Shukla (2020:85), research population encompasses all entities, subjects, or members with certain characteristics directly related to the study. This study included Small and Medium-sized Enterprises (SMEs) operating in the Limpopo Province of South Africa. The research took place in Limpopo for multiple purposes. Initially, small and medium-sized enterprises in Limpopo Province encountered distinctive economic obstacles and chances that were frequently overlooked (Donga, Ngirande & Shumba, 2016:61), creating a perfect environment to examine tax evasion conduct. Furthermore, Limpopo plays a crucial role in regional development, and analysing the tax practices of SMEs can offer valuable information for implementing policies that encourage adherence and foster economic expansion (South African Government, 2019). Lastly, the government's emphasis on enhancing the business climate for small and medium enterprises offers a relevant chance to evaluate and tackle tax evasion issues within this framework. As for the sample size and sampling methods, the following section illustrates the processes used in the study.

3.4.1. Sample size

The sample size is the number of observations or individuals included in a study or experiment (Asenahabi & Ikoha, 2023:8). As such, the sample size is the number of

individuals, items, or data points selected from a larger population to represent it statistically. This study used Andrew Fisher's formula to determine the sample size. Andrew Fisher's formula is a commonly utilised approach for calculating sample size in research studies (Asenahabi & Ikoha, 2023:8). The equation can be used for surveys with known or unknown population proportions. It can be adjusted for various precision, confidence, and population size levels. The equation is written as:

$$n = \frac{Z^2 \cdot p \cdot (1-p)}{d^2} \dots\dots\dots 1$$

Where:

- n is the required sample size,
- Z is the z-score corresponding to the desired confidence level (usually 1.96 for a 95% confidence level),
- p is the estimated proportion of the population that has the attribute of interest (if unknown, 0.5 is used to maximise the sample size),
- d is the desired margin of error or precision level (typically set at 0.05).

Using Equation 1, the following section shows how the sample size was attained in the study.

$$n = \frac{(1.44)^2 \times 0.5(0.5)}{(0.05)^2} = 207$$

Utilising this equation guarantees that the sample size is statistically sound and reflective of the population under investigation. This study targeted a 95% confidence level with a 5% margin of error. Because of uncertainty about the exact proportion of SMEs involved in tax evasion, a proportion (p) of 0.5 was assumed to increase the sample size. Following Andrew Fisher's formula resulted in a sample size of 207 being calculated for this study. Nevertheless, the sample size was expanded to 250 to account for potential non-responses and guarantee achieving the goal of 207 completed responses. This choice is consistent with comparable research in South Africa, like the studies by Oberholzer and Stack (2014a:226) with 260 participants in Gauteng, and Swanepoel and Meiring (2017, 2018) with sample sizes of 140 and 345, respectively. Hence, a sample size of 250 was suitable for this study, targeting small and medium enterprises in Limpopo Province.

3.5 Pilot Study

According to Hassan, Schatterner and Mazza (2006:70) and In (2017:601), a pilot study is another essential stage in a research project, which examines any weaknesses in the research, such as the data collection instruments and procedures that must be followed before conducting a complete study. In (2017:601) defines a pilot study as a smaller study that tests research techniques, data collection instruments, strategies for sampling, and other related procedures in planning a large-scale main trial. The study underwent a two-phase data collection process, in which the questionnaire was piloted before the main data collection. This was done by using 25 respondents who were to note any challenges and offer suggestions for improving the questionnaire, where needed. This is in line with the studies by In (2017:605) and Cowan *et al.*, (2022:1). The questionnaire was distributed to 25 respondents using the cold calling method, but it was realised that this engaging mode would not be successful as no completed questionnaires were received. It was discovered that people were not comfortable to give the researcher a moment for completion of the questionnaires, especially where appointments were not scheduled. This was the main challenge identified during the piloting stage. As a result, when the actual data were then collected, the questionnaires were sent through emails to manager/s and/or business owner/s of SMEs from the Excel spreadsheet compiled from online business directory.

The data collection instrument (questionnaire) was piloted in this study to accomplish the following:

- Test if the questionnaire had relevant questions, comprehensibility of the format, and whether the questionnaire was appropriate for the targeted population.
- To identify the feasibility of the study and any challenges and to assess the time taken to complete the questionnaire (Hassan *et al.*, 2006:70; Ball, 2019:413).

The pilot-testing results revealed that the participants understood the questions since they all managed to answer all sections. As such, the researcher proceeded with the actual data collection. Google Forms were used, and a link was sent to various SMEs randomly selected from those enlisted in the Excel sheet. Google forms is regarded a

user-friendly platform that is cost-effective and has an advanced functionality that makes it easy to distribute questionnaires. Google Forms have the advantage of the ability to reach out to anyone wherever they are located and allow the creation of various types of questions, such as multiple choices and Likert scales. According to Kabir (2016:22), using Google Forms does not require any technical experience; anyone can easily create, distribute, and collect responses. Its cost-free nature makes it the most preferable choice by researchers who have limited budget when collecting data from large groups (Smith, Taylor & Williams, 2021:95). Upon receipt of the responses, the data need to be analysed. The following section explains the process of data analysis.

3.6. Data Analysis

Data analysis involves converting unprocessed data into usable information to aid in making well-informed decisions (Brandy, 2023:1; Ndlovu & Schutte, 2014:867). It includes gathering and analysing data to address inquiries, prove hypotheses, or challenge theories. In this study, descriptive statistics were used to compile percentiles. Subsequently, the study employed Exploratory Factor Analysis (EFA) using Stata, followed by the Ordinary Least Squares (OLS) regression technique to achieve the study's objectives, as outlined in Chapter 1. According to Fabrigar and Wegner (2012), EFA is conducted without a specific hypothesis; it is an exploratory process that helps researchers identify whether associations exist among the initial variables and, if so, how they are grouped. The study adopted the EFA to uncover the underlying structure of a relatively large set of variables by engaging a statistician to analyse data using Stata. In this study, (q1) tax evasion was the dependent variable. Based on the EFA results, the independent variables discovered were (q2) probability of detection; (q8) the shape of the tax rate schedule; (q10) high tax rates; (q3) tax fairness; (q6) tax system; (q4) fiscal inequity, and (q14) moral obligation. A quantitative approach was adopted for this study, as numerical data were used to compare existing information with the new findings on why people evade taxes. The respondents' attitudes and behaviours were tested based on statistical and numerical evidence. Watson (2015) suggests that the quantitative research method involves thinking about the world in terms of measurements, which are then analysed to conclude.

In this study, Stata was used to examine the significant relationships between the independent variables (probability of detection, shape of the tax rate schedule, high tax rates, tax fairness, tax system, fiscal inequity, and moral obligation) and the dependent variable (level of tax evasion). The survey included 210 small and medium-sized enterprises (SMEs) from the Limpopo Province, South Africa. Andrew Fisher's formula was used to calculate the sample size, confirming that a sample of 207 SMEs was sufficient. However, a total sample size of 250 was selected to account for non-responses. Out of these, 210 respondents completed the survey. To ensure data quality, EFA was conducted for the measurement of each variable.

3.7 Validity and Reliability of the Research

Different methods are employed to evaluate the trustworthiness and accuracy of a study to validate its findings. Reliability is the stability of a measurement, which can be assessed through techniques such as test-retest, internal consistency (e.g., Cronbach's alpha), and inter-rater reliability (Izah, Sylva & Hait, 2023:1057; Heale & Twycross, 2015:66). Validity assesses the extent to which the research tools accurately capture the intended measurements (Younas & Porr, 2023:1; Cowan *et al.*, 2022:1). Validity can be evaluated by considering content validity (if the tool covers the appropriate content), construct validity (if it accurately assesses theoretical concepts), and criterion validity (comparing results with other measures). Researchers guarantee the consistency and significance of their findings by implementing these strategies.

3.7.1 Validity

The extent to which a concept or construct is accurately measured in quantitative research is known as validity (Heale & Twycross, 2015:66). It ensures that the research tool, like a survey, accurately assesses what it is meant to assess. In this study, a questionnaire was custom-made to match the research goals, guaranteeing that the questions addressed the essential aspects linked to tax evasion conduct. To improve accuracy, questionnaire piloting was carried out. Conducting a pilot study entails trying out the survey on a small, diverse sample before the actual research. This procedure assisted in detecting any uncertainties, unnecessary inquiries, or flaws

in the design, enabling modifications to enhance comprehensibility and guarantee that the survey accurately assessed the desired ideas.

Some of the key strategies used to assess validity include:

i. Content Validity

The researcher checked whether the questionnaire fully covered all the relevant aspects of the studied concept. For instance, ensuring that all critical dimensions of tax evasion behaviour were included in the questionnaire was part of content validity.

ii. Construct Validity

The researcher assessed whether the questionnaire accurately reflected the theoretical constructs it was supposed to measure. For example, the statements related to tax evasion were made to align with established theories on why individuals or businesses might evade taxes.

iii. Criterion Validity

This was done by comparing the questionnaire results with another measure or outcome that is already known to be valid. In the case of this study, criterion validity could be evaluated by comparing the results with existing data on tax evasion behaviours in similar populations.

Ultimately, through piloting and addressing potential weaknesses, the validity of the questionnaire was strengthened, ensuring that it accurately measured respondents' attitudes and behaviours towards tax evasion. The following section presents information on how reliability was assured in the study.

3.7.2 Reliability

The quality of a quantitative study is determined by the reliability or accuracy of the instrument used, which is how consistently it provides the same results when used repeatedly in the same scenario (Heale & Twycross, 2015:66). The data collected remain stable and consistent over time owing to reliability. This research used Cronbach's Alpha reliability test to evaluate the questionnaire's reliability. This test assesses the questionnaire's internal consistency by examining the degree of

association among a group of items. An 0.80 Cronbach's Alpha value was obtained for q2, q4, and q6 items, suggesting satisfactory reliability, as social sciences research typically deems values above 0.7 acceptable.

Several approaches were used in this study to guarantee reliability.

i. Test-Retest Reliability

The researcher included giving the same test to the same participants at two different times and evaluating the reliability of their answers.

ii. Measurement of Internal Consistency

The researcher assessed how effectively the items in a survey gauge the identical concept. An elevated Cronbach's Alpha score, like the 0.80 found in this study, suggests a strong relationship and consistency in measuring tax evasion behaviour with items q2, q4, and q6.

Inter-rater reliability evaluates how much consensus exists among researchers or raters assessing the same phenomenon separately. Using Cronbach's Alpha test, this study demonstrated that the variables were able to elucidate tax evasion behaviour consistently and effectively, confirming the reliability and dependability of the instrument employed in reaching conclusions. The following section covers the ethical processes followed in the study.

3.8 Ethical Considerations

Ethical principles must be applied effectively in research, especially when working with human subjects (Arifin, 2018:30). Connelly (2014:54) points out that the most important ethical considerations for surveys are whether a review board approved the research and whether participants gave informed consent. This study adhered to the ethical guidelines set by the University of Venda, with ethical approval number FMCL/23/ACC&AUD/04/0905. According to Arifin (2018:30-31), the study guaranteed that participants volunteered, had privacy, gave informed consent, and were safeguarded from harm, as required by the University of Venda Research Ethics Committee.

Furthermore, this study followed the guidelines of the Protection of Personal Information Act (POPIA) to safeguard the handling of participants' personal data with care and confidentiality. The design and administration of the questionnaire followed POPIA guidelines to ensure participants' personal information was safeguarded, privacy was upheld, and data were only utilised for the study with prior consent.

3.8.1 Permission for data collection

Permission for data collection letter (ethical clearance letter no. FMCL/23/ACC&AUD/04/0905) was obtained from University of Venda Research Ethics Committee. Upon the receipt of the letter, the collection of data took place accordingly. In addition, permission from the participants was sought before data were collected. A consent form was attached to the questionnaire for participants to give their consent.

3.8.2 Voluntary participants

The participants were informed that they should participate freely and were allowed to withdraw without any negative consequences for them. All responses, therefore, were voluntary in nature.

3.8.3 Privacy and Confidentiality

As the study involved responding to the questionnaire, the participants were assured confidentiality and anonymity. The study did not use any information provided by the participants that may reveal their identity. The researcher kept all the information confidential.

3.8.4 No harm to the participants

All participants were assured of safety from any harm, and nobody was subjected to physical or emotional harm. Given the fact that an online survey was used, no harm was done to any of the participants.

3.9 Conclusion

This chapter detailed how the study was carried out following the positivism paradigm, which focuses on objectivity, empirical evidence, and quantitative methods to reveal relationships between variables. It started with detailing the sampling methods, justifying the selected sample size and technique, and ensuring the sample's representativeness and statistical validity. The chapter provided detailed information on how data were gathered, explaining the creation, testing, and distribution of the questionnaire, whether online or in person, while following ethical guidelines set by the institution and the Protection of Personal Information Act (POPIA).

After that, the chapter explained the methods utilised for examining the data, such as Exploratory Factor Analysis (EFA) to recognise relationships among variables and regression analysis (Ordinary Least Squares) to assess the hypotheses and connections between independent and dependent variables. Statistical software like Stata was employed to ensure the accuracy and precision of the analysis, and measures such as Cronbach's Alpha were used to validate the reliability of the results. Overall, this chapter emphasised the structured and thorough method used to guarantee that the research methodology was strong, ethical, and in line with the study's goals, offering a detailed guide for duplication and enhancing the trustworthiness and accuracy of the results.

CHAPTER 4

DATA ANALYSIS AND DISCUSSIONS

4.1 Introduction

This chapter presents and discusses the study's empirical findings using descriptive statistics. It begins by describing the study's variables, followed by descriptive statistical analysis and, afterwards, descriptive frequencies in table format. The presentation proceeds by reflecting on the study's empirical results, with reference to the literature reviewed. The objectives of the study, as reflected in the introductory chapter of this dissertation, are:

- To identify the determinants of tax evasion by SMEs in Limpopo Province, and
- To assess the effect of the determinants on tax evasion by SMEs in Limpopo Province by:
 - a. Analysing the direction of the influence of various determinants on tax evasion by SMEs in Limpopo Province;
 - b. Evaluating the magnitude of the impact of these determinants on tax evasion behaviour of SMEs in Limpopo Province, and
 - c. Determining the significance of the effects of these determinants on tax evasion practices by SMEs in Limpopo Province.

The study adopted the EFA to uncover the underlying structure of a relatively large set of variables by engaging a statistician to analyse data using Stata. In this study, (q1) tax evasion was the dependent variable. Based on the EFA results, (q2) probability of detection; (q8) the shape of the tax rate schedule; (q10) high tax rates; (q3) tax fairness; (q6) tax system; (q4) fiscal inequity, and (q14) moral obligation were independent variables. The primary data were obtained through a questionnaire completed by 210 SMEs based in Limpopo Province.

4.2 Descriptive Statistics

According to Cooksey (2020), descriptive statistics refers to arranging, summarising, and defining the characteristics of extensive data and presenting them to reflect their

central tendency, dispersion, and frequency distribution measures. As this study utilised a Likert scale questionnaire, descriptive statistical analysis and descriptive frequencies were used to understand the data's characteristics. According to Khadka (2015:13), as an individual Likert scale is not considered an interval or ratio scale data, the statistical assumptions are violated when a researcher uses the mean and standard deviation to describe characteristics of the data; hence, the questionnaire consisted of a multiple Likert scale.

4.2.1 Variable description

Table 4.1 below presents various questions and related **variables** used in the research study. Each variable corresponds to a specific question for the demographic characteristics of the respondents as follows:

i. Questions 1 to 17

These variables represent attitudinal questions related to tax evasion, the fairness of tax systems, the role of government, perceptions of corruption, and the responsibilities of SMEs. Likert-type scale questions gauge respondents' beliefs, opinions, and attitudes towards tax-related issues and government accountability.

ii. Question 18

This variable allows for an open-ended response, collecting opinions on the leading causes of tax evasion and capturing the respondents' personal viewpoints. The question focused on the following categories:

- **Industry** – A categorical variable representing the industry in which the respondent operates, helping to understand responses in the context of their business sector.
- **Age** – A demographic variable that records the age range of the respondents, providing insights into how tax attitudes may vary across age groups.
- **Position** – This variable identifies the respondent's role or position in their business, indicating the level of decision-making authority or responsibility they hold.
- **Level of Education** – A demographic variable that captures the educational background of respondents, which can help correlate education level with tax attitudes

- **Types** – A categorical variable identifying the type of business the respondent operates in (e.g., sole proprietorship, corporation), offering context on business size and structure
- **Gender** – A demographic variable indicating the respondent's gender, allowing analysis of how responses differ between male and female participants.

The table is structured to present data on individual perceptions and demographic characteristics to analyse trends in attitudes towards tax and government-related issues across different respondent groups.

Table 4.1: Variable Description

Variable	Meaning
Q_1	If I decide to evade tax, SARS will notice.
Q_2	People evade tax because the chances of being caught are very low.
Q_3	Paying tax is unfair.
Q_4	It will be fair if tax is paid by wealthy individuals only.
Q_5	Training is required to use the e-filing system.
Q_6	I do not know how to calculate my tax liability, as it is complicated.
Q_7	Tax rates are too high; therefore, they should be reduced.
Q_8	Everyone should pay the same income tax rate (%), regardless of the income earned.
Q_9	Many people are forced by the situation to evade tax as the tax burden is heavy.
Q_10	Tax evasion is encouraged by high taxes.
Q_11	Corruption and wastage in Government are very high.
Q_12	The Government is not transparent about the usage of taxpayer money.
Q_13	If some people evade tax, it is not an issue as the Government receives enough tax.
Q_14	I work hard for the money, so it should be allowed if I want to keep my money to myself.
Q_15	I support the current Government.
Q_16	Tax evaders should pay monetary penalties and serve a jail sentence. Would you consider these penalties unreasonable?
Q_17	I feel obliged to always pay taxes.
Q_18	What do you think are the leading causes for people evading tax? "Your opinion".
Industry	Which industry do they operate in?
Age	Indicate the age range applicable to the respondent.
Position	Position occupied in the business.
Level of Education	Qualification attained.
Types	Type of a business.
Gender	Indicate the applicable gender (Male/Female).

Source: Annexure A (Study questionnaire)

Table 4.1 above reflects the questions which were asked to achieve the objectives of the study. From questions 1 to 15, the respondents were requested to choose whether they *agree*₁, *strongly agree*₂, *neutral*₃, *disagree*₄, or *strongly disagree*₅ on a (1-5) Likert scale. In addition, for questions 16 to 17, respondents were asked to choose – yes 1, I do not know 2, or probably not 3. Afterwards, they were asked to give their own opinion in question 18. In addition, some demographic questions were also asked about the owner or manager of the SMEs; the questions focused on details such as age, position, level of education, gender, which industry the business is in, and what type of business it is.

4.2.2 Descriptive statistical analysis

Below is the Table of descriptive statistical analysis for all the variables. To understand the data sample, descriptive statistics is an essential first step in analysing data (Asenahabi & Ikoha, 2023:12). The descriptive measures used in this study include the mean, standard deviation, skewness tests, and kurtosis tests in that order as explained below:

Mean, also known as the average, is the measure of central tendency, and it reflects all the values in a data set (Demir, 2022:397). It is calculated by adding all observations and dividing it by the number of observations (Westfall, 2014:191).

Standard deviation is the measure that determines how far away from the mean the data values are (Demir, 2022:397).

Kurtosis is a statistical measure that describes whether the data are heavy-tailed or light-tailed to a standard distribution data set (Demir, 2022:397).

Skewness represents a measure of shape and the extent to which a distribution deviates from symmetry (Westfall, 2014:192).

Table 4.2: Descriptive Statistics

Variable	Mean	SD	Kurtosis	Skewness
Q_1	2.780952	1.205894	1.614848	-.3612198
Q_2	3.214286	1.567244	1.546168	-.1558381
Q_3	2.328571	.8867137	2.753729	.7537562
Q_4	2.447619	.9069741	2.026356	-.769505

Q_5	3.285238	1.148528	3.025377	-1.315626
Q_6	3.090476	1.247545	1.8031	-.7199128
Q_7	3.757143	.7965665	10.59408	-3.068513
Q_8	2.361905	.7655727	3.681469	1.529051
Q_9	1.604762	1.153723	3.219265	1.448572
Q_10	1.252381	.4354166	2.299844	1.140107
Q_11	3.447619	1.127991	3.735612	-1.623862
Q_12	3.604762	.9639314	5.888812	-2.162173
Q_13	4.2	1.217103	3.343519	-1.312631
Q_14	2.952381	.7932846	4.368957	-1.125867
Q_15	1.414286	.8991148	5.248747	1.940474
Q_16	1.861905	.7287508	1.907571	.2173216
Q_17	2.028571	.963021	1.085866	-.057024
Q_18	4.880952	3.705694	2.986514	1.013787
Industry	5.119048	3.216304	1.616051	.099824
Age	3.728571	1.870865	1.662632	0.636276
Position	1.828571	.769728	1.748811	.302262
Level of Education	2.490476	1.107782	2.919585	.7014633
Types	3.438095	1.10175	2.543209	-.6494183
Gender	1.542857	.499502	1.029605	-.1720618

Source: Primary data -Stata

The table presents descriptive statistics, in which the mean provides the central value of a dataset. Subsequently, the standard deviation measures how spread out the data are around the mean. Furthermore, the skewness indicates the asymmetry of the data distribution, showing whether it leans to the right or left. More so, kurtosis assesses the "tailedness" of the distribution, indicating the presence of outliers or extreme values. These metrics give an understanding of the data's central tendency, variability, and shape. The results show that based on q₁, q₆, and q₁₄ variables are 2.78, 3.09, and 2.95, respectively, which implies that the average on the sampled SMEs in these data believe that if they evade tax, SARS will *probably not notice*; they know how to calculate their tax liability, and they are *not sure* that the monies they work hard for, they should pay tax on. The standard deviations for q₁, q₆, and q₁₄ variables are 1.20, 1.24, and -.79, respectively, substantiating the absence of outliers in the data. Furthermore, the mean for q₃, q₄, q₈, q₉, q₁₀, q₁₅, q₁₆, and q₁₇ are 2.32, 2.44, 2.36, 1.60, 1.25, 1.41, 1.86, and 2.02, respectively, which is at the range of 1 to 2.5. This implies that the average sampled SMEs strongly agree that paying tax is unfair and that it would have been fair if tax was imposed on wealthy individuals only. On the contrary, some *strongly agree* that it would have been better if everyone paid the same income tax rate, regardless of the income earned. Some respondents support the idea

that many people evade taxes owing to unfortunate circumstances as the tax burden is heavy. In contrast, others agree that tax evasion is encouraged by high tax rates.

Nonetheless, some support the current government, whereas others believe that the monetary penalties and serving a jail sentence as punishments for evading tax are unreasonable. They are *not sure* if they feel obliged always to pay tax. The standard deviation for q_3 , q_4 , q_8 , q_9 , q_{10} , q_{15} , q_{16} , and q_{17} are -88, -90, -76, 1.15, -43, -89, -72, and -96, respectively, which also reflects no outliers in the data. The mean for q_2 , q_5 , q_7 , q_{11} , and q_{12} are 3.21, 3.29, 3.75, 3.44, and 3.60, respectively, which means that the sampled SMEs *almost disagree* that people evade tax because chances of being caught are very low; people need training for use of e-filing; tax rates are too high, reduction is required; there is corruption and wastage in Government and there is no transparency about the usage of SMEs money. The standard deviation for q_2 , q_5 , q_7 , q_{11} , and q_{12} are 1.56, 1.14, -79, 1.12, and -96, respectively, implying the absence of outliers in the data (Westfall, 2014:192). As such, the following section describes the shape of the data, as noted in Table 4.2.

4.2.2.1. Shape of the data

In this research, kurtosis and skewness are employed as metrics to assess the distribution shape of the data set. Demir (2022:397) characterises kurtosis as a statistical measure that discerns whether data are heavy-tailed or light-tailed relative to a normal distribution. Westfall (2014:191) clarifies that kurtosis is evaluated against normality using terminologies such as leptokurtic, mesokurtic, and platykurtic, which respectively denote kurtosis values greater than zero, equal to zero, and less than zero. The data in Table 2 demonstrate that all variables have kurtosis values exceeding zero, suggesting an uneven distribution for this study.

As Westfall (2014:191) explains, skewness is a measure of the asymmetry in a data distribution. An asymmetric distribution is one where two halves of the distribution are not exact mirror images of each other. In a normal distribution, the skewness value is zero. As indicated in Table 2, the data set in this study deviates from a normal distribution since none of the variables exhibit a skewness of zero. The predominance of negative skewness values among the variables indicates that the left tail of the

distribution is lengthier or more extended. The following section assesses SMEs' perception of Tax evasion.

4.3 Section B: Assessing SMEs' Perception of Tax Evasion

Section B presents a set of questions created to identify the primary factors that lead to tax evasion by SMEs in Limpopo Province. The respondents were asked to assess their views and feelings about tax evasion. The information collected from their answers was used to conduct a thorough factor analysis to reveal the area's fundamental causes and motivators of tax evasion. This method enables a more profound comprehension of the variables affecting SMEs' actions and the frequency of tax evasion in Limpopo Province.

4.3.1. Evading Tax and SARS Awareness

The SME owners were asked if SARS would notice if they decided to evade tax, and the results are presented in Table 4.3 below.

Table 4.3: Evading Tax and SARS Awareness

Category	Freq.	Percent
1. Agree	49	23
2. Disagree	32	15
3. Neutral	46	22
4. Strongly Agree	82	39
5. Strongly disagree	1	1
Total	210	100

Source: Primary data -Stata

The findings in Table 4.3 indicate that 39% of the participants strongly agreed and 23% agreed that tax evasion could happen with SARS noticing, totalling 62% who think SARs can notice evasion. In contrast, 22% of participants were undecided, showing uncertainty about the chances of being detected by SARS. Some 16% of SMEs, with 15% in disagreement and 1% strongly disagreeing, form a smaller group that thought SARS will not notice tax evasion.

These findings indicate that many SME owners believe there are no shortcomings in SARS' detection of tax evasion, highlighting possible deficiencies in the agency's oversight and enforcement mechanisms. This aligns with Nor and Mohamed (2024).

The majority's belief that they cannot avoid being caught may be because of understanding how SARS conducts audits or the perception of flaws in tax enforcement. The neutral reactions accentuate a chance for SARS to offer increased knowledge and openness, perhaps persuading indecisive respondents to adhere to regulations. The small group that holds a different opinion, probably more knowledgeable or experienced about what SARS cannot do, might not be used to encouraging others to follow the rules. In general, the findings suggest that SARS has plans in place for auditing and deterrent measures to enhance SMEs' tax compliance. However, this contradicts Anesa and Bressan (2024), who state that many tax evaders may evade tax and go unnoticed. As such, the results show that SARS in Limpopo province notices tax evaders in the province. The following section further assesses if SMEs evade tax owing to low chances of being caught. The results are presented in Table 4.4.

Table 4.4: SMEs evading tax and chances of being caught

Category	Freq.	Percent
6. Agree	47	22
7. Disagree	24	12
8. Neutral	50	24
9. Strongly Agree	15	7
10. Strongly disagree	74	35
Total	210	100

Source: Primary data -Stata

This question tried to establish whether “probability of detection” was one of the determinants of tax evasion. The data in Table 4.4 indicate that 22% of participants agreed and 7% strongly agreed that SMEs avoid paying taxes owing to the low risk of getting caught. This gave a total of 29% who agreed with the given statement. At the same time, 24% of the participants remained neutral, showing that they had no strong opinion either way on the matter. However, 12% held a different opinion, and a substantial 35% firmly held this view, making a total of 47% who disagreed with the statement that SMEs avoid paying taxes because they are less likely to be caught.

Almost half of those surveyed (47%) thought that the chances of getting caught were not the main factor for tax evasion, showing firm resistance to the notion that SMES avoid paying taxes only because they believe they will not get caught. The results,

however, contradict Anesa and Bressan (2024:17), who state that the entanglement of legal, economic, ethical, and philanthropic responsibilities enacted in mundane tax strategy work for SMEs, and the majority are tax compliant. Subsequently, it is also noted that the high proportion of participants who strongly disagreed (35%) indicates a firm denial of this belief. However, the 29% that agreed or strongly agreed might represent a group of SME owners who see flaws in the tax enforcement system and think avoiding payment could be done without much chance of being caught. The neutral group (24%) may doubt how effective SARS is at monitoring, indicating an opportunity for improving their perceptions through more education or transparency on enforcement procedures. The findings generally indicate a divergence in views on tax evasion and enforcement, as many respondents do not believe that evasion is mainly motivated by the low risk of being caught. The study further assessed if SME owners felt that paying tax is unfair, and the results are presented below.

Table 4.5: Fairness of Paying by SMEs

Category	Freq.	Percent
11. Agree	24	11
12. Disagree	128	61
13. Neutral	23	11
14. Strongly Agree	35	17
15. Strongly disagree	0	0
Total	210	100

Source: Primary data -Stata

The findings in Table 4.5 above show that a large majority of participants (61%) did not agree with the idea that paying taxes is unjust, indicating that most small business owners see tax responsibilities as fair and acceptable. This viewpoint might suggest a widespread recognition and approval of how taxes contribute to public services and infrastructure. The minority of respondents, comprising 17%, who "strongly agreed" and 11% who "agreed" with the statement, believe the tax system was unfair, potentially leading to tax evasion behaviour in this group. The neutral response rate of 11% may indicate people who are unsure or do not have strong feelings about the tax system's fairness.

These results show that most respondents did not consider fairness a significant factor influencing tax evasion. This notion underscores Dianova's (2023:751) revelation that evading tax is not a result of SMEs considering it an unfair practice but their decision not to comply. Given that most participants view tax payments as equitable, variables like perceived likelihood of being caught or the intricacy of tax laws could have a more significant impact on tax evasion tendencies within SMEs than merely thinking that taxation is unfair. However, those in the minority who perceive the tax system as unjust may be more likely not to follow tax laws, indicating a necessity for better explanations of how tax money is spent and the advantages of following the rules. By dealing with these issues, SARS may decrease tax evasion by improving the perception of fairness among SMEs. The study further assessed if SME owners believed that tax should be paid by wealthy people only, and the results are presented in Table 4.6 below.

Table 4.6: Tax and income levels

Category	Freq.	Percent
16. Agree	54	25
17. Disagree	14	7
18. Neutral	136	65
19. Strongly Agree	6	3
20. Strongly disagree	0	0
Total	210	100

Source: Primary data -Stata

The participants were asked if it would be fair if taxes were paid by wealthy individuals only. The findings in Table 4.6 indicate that 25% of the participants agreed and 3% strongly agreed that it would be fair if only affluent individuals paid taxes, totalling a combined 28% in favour of this conception. A large proportion, 65%, gave a neutral response, showing they were unsure or unconcerned about whether taxation should be exclusive to the rich. Just 7% of participants did not agree with this statement, with no participants strongly disagreeing.

These findings indicate that many respondents were not firmly in favour but are receptive to redistributing the tax burden mostly onto wealthier individuals. The results support those of Tarroux (2019:27), which indicated that the income level should not be the basis for determining the value of tax to be paid by businesses or individuals. Nevertheless, the significant majority (65%) indicated that most participants either did

not have a definite stance on the issue or did not grasp the consequences of this tax system entirely. This impartiality could also indicate hesitation or mixed feelings about the equity or feasibility of implementing taxes only on the affluent. Only a tiny percentage of survey takers (7%) held a dissenting viewpoint, indicating minimal direct resistance towards the proposal. The findings suggest a need for more education and dialogue on the fairness and equality of taxes, especially in highlighting the overall societal advantages of a more equitable tax system with contributions from all economic sectors. Tax authorities could improve compliance and reduce evasion by explaining how tax revenue benefits everyone and clarifying the contributions of different income groups to the overall tax base. The study further assessed if SME owners required training to use the e-filing system, and the results are presented in Table 4.7 below.

Table 4.7: Training is required to use the e-filing system

Category	Freq.	Percent
21. Agree	38	18
22. Disagree	2	1
23. Neutral	30	14
24. Strongly Agree	140	67
25. Strongly disagree	0	0
Total	210	100

Source: Primary data -Stata

The findings in Table 4.7 about SMEs receiving training to use the e-filing system show that most respondents felt that training is necessary to properly utilise the e-filing system, with 67% strongly agreeing and 18% agreeing, giving a total of 85% supporting this idea. Only 14% of the respondents are classified as "neutral," indicating indecision or mixed feelings about the necessity of training. Merely 1% of respondents disagreed with the statement, and none strongly disagreed. These findings emphasise the widespread belief that users need adequate training to navigate the e-filing system effectively. The significant level of consensus (85%) indicates that numerous SME owners believe the system is not intuitive or user-friendly and requires guidance. This might show that tax authorities like SARS should provide better training resources for users to handle their tax duties effectively using the e-filing system. The results support a study by Jankeeparsad, Jankeeparsad and Nienaber (2016:120), who states that the most significant barrier to eFiling usage is that SMEs using the electronic method

reported perceived usefulness as the primary determinant in their decision to use e-filing. The neutral responses (14%) could be a sign of people who either do not know the system well or think only certain users require training based on their technical skills. The slight disagreement (1%) implies that only a few participants believe the system is intuitive enough to use without instruction. In general, the findings suggest a definite requirement for more training and assistance to enhance the usability and accessibility of the e-filing system, which could lead to a decrease in errors and a rise in compliance from SMEs. The study further assessed whether SME owners know how to calculate their tax liability, and the results are presented in Table 4.8 below.

Table 4.8: Knowledge about how to calculate tax liability

Category	Freq.	Percent
26. Agree	39	19
27. Disagree	35	17
28. Neutral	6	3
29. Strongly Agree	128	60
30. Strongly disagree	2	1
Total	210	100

Source: Primary data -Stata

The participants were asked if they knew how to calculate their tax liability and whether it was complicated. The findings indicate that most respondents, with (60%) strongly agreeing and 19% agreeing, giving a total of 79%, believed that they lacked the knowledge to calculate their tax liability owing to its complexity. A minority of the respondents (17%) did not agree with this statement, suggesting that they did not consider calculating their tax liability complicated. Only 1% strongly disagree, while 3% remained neutral, indicating they were either undecided or indifferent. The results indicate that most respondents worried about the complexity of determining tax obligations. The extensive 79% agreement indicates a common challenge that SME owners face in comprehending tax calculations, potentially resulting in non-compliance or needing outside help. This perceived complexity could be because of the complexities of tax laws, the electronic filing system, or a lack of sufficient understanding of tax procedures.

The 17% of respondents who disagreed probably comprehended tax laws better or had resources that simplified tax calculation. A few neutral and strongly disagreeing

answers indicate that only a small group of respondents felt indifferent or confident in their skills in doing tax calculations without seeing it as too complicated. In general, the findings show a definite requirement for clear tax filing knowledge or increased assistance from SARS, such as easy-to-use resources, educational materials, or tax advisory services, to aid SME owners in comprehending and handling their tax responsibilities more effectively. This underscores Ndlovu and Schutte's (2014:867) and Donga *et al.*, (2016:66) submission that small businesses struggle to maintain the data required to file tax returns and that tax practitioners experience pressure from dealing with historical tax matters. As such, acknowledging this issue can enhance tax adherence and decrease stress or mistakes associated with tax computations. The study further assessed if SMEs considered tax rates too high, and the results are shown in Table 4.9 below.

Table 4.9: Tax rates are too high

Category	Freq.	Percent
31. Agree	15	7
32. Disagree	2	1
33. Neutral	2	1
34. Strongly Agree	191	91
35. Strongly disagree	0	0
Total	210	100

Source: Primary data -Stata

This question sought to establish if high tax rates were one of the factors encouraging tax evading and, therefore, should be reduced. The findings indicate a strong agreement among participants that tax rates are excessive and should be lowered. A whopping 91% strongly agreed with the statement, with an additional 7% in agreement, adding up to 98% of participants in favour of reducing tax rates. Just 1% of survey participants were neutral, and another 1% disagreed, with no participants strongly disagreeing.

These results indicate that almost all participants believed that the tax rates were too high and thought a decrease was needed. This supports Gale and Samwick (2017:13) and BDO South Africa (2024), who posit that many SMEs advocate for tax reductions. Thus, the vast majority (98%) indicated a common belief among SME owners that steep tax rates could pose a substantial challenge to their businesses, possibly

causing financial difficulty or deterring adherence. This might suggest that participants thought reducing tax rates would create a better business climate and potentially boost willingness to comply with tax responsibilities. The low number of neutral and disagreeing responses indicates very little opposition to lowering tax rates, showing that most of the surveyed group strongly agreed with reducing taxes because of the burden of high taxes. These findings highlight the necessity for policymakers to consider the issues raised by SMEs about the existing tax system and assess if changes in tax rates could help create a fairer and more long-lasting business environment. These issues could also enhance tax compliance and lessen tax evasion inclinations. The study further assessed if tax should be the same amongst all taxpayers, and the results are shown in Table 4.10 below.

Table 4.10: Same Income Tax Rate

Category	Freq.	Percent
36. Agree	2	1
37. Disagree	165	79
38. Neutral	8	4
39. Strongly Agree	0	16
40. Strongly disagree	35	0
Total	210	100

Source: Primary data -Stata

Regarding the question about whether everyone should pay the same income tax rate, the findings indicate that 79% of survey participants did not agree and 16% strongly disagreed with the notion of everyone being obligated to pay the same income tax rate, regardless of their income, adding to a substantial 95% collectively opposing the concept of a flat tax rate. Only 1% of participants agreed with the statement, with zero strongly agreeing, while 4% were neutral.

These results show that SMEs strongly favour a progressive tax system, with tax rates depending on income levels. Most small business owners oppose a flat tax rate because they think wealthier individuals should pay a more significant portion of their income in taxes than those who earn less. This aligns with the submissions of Anesa and Bressan (2024), who state that most SMEs believe an equal tax rate would be unjust because it might impose a more significant burden on lower-income individuals. The low levels of agreement (1%) and neutrality (4%) suggest that a few respondents

support or are unsure about the flat tax concept. These findings underscore the widespread agreement that tax systems need to be designed to consider income inequality, with individuals earning more income shouldering a more significant tax burden to enhance equity. This perspective aligns with progressive taxation, commonly viewed to lessen inequality and secure enough funding for vital public services. The study further assessed if there were factors leading to SMEs evading taxes, and the results are presented in the table below.

Table 4.11: Tax evasion is encouraged by high taxes

Category	Freq.	Percent
41. Agree	163	78
42. Disagree	1	1
43. Neutral	12	6
44. Strongly Agree	34	16
45. Strongly disagree	0	0
Total	210	100

Source: Primary data -Stata

Table 4.11 above reflects the results where the respondents were asked to respond to whether many people are forced by the situation to evade tax since the tax burden is heavy. The findings show that most respondents thought that many SMEs are compelled to avoid paying taxes because of the high tax load. A total 94% of respondents either agreed (78%) or strongly agreed (16%) with the statement. Furthermore, 1% of participants disagreed, with none strongly disagreeing, while 6% were neutral.

The results indicate that most participants saw tax evasion as a reaction to what they considered to be a high tax load. The strong consensus (94%) suggests that numerous small and medium-sized business owners feel that the tax rates or demands are excessive, leading them to avoid paying taxes to alleviate financial burdens. The results align with Blesse (2023:44) and Okafor (2023:378), who revealed that higher tax rates, sanctions, and normative appeals affect tax compliance intentions to fulfill their obligations. This view can play a significant role in the lack of adherence and shows that some view tax evasion as not an option but a requirement. These findings underscore the importance of tax authorities analysing potential reforms or providing relief options that tackle SMEs 'worries about the apparent tax burden. Lowering taxes

on businesses and individuals may enhance adherence and decrease tax avoidance, resulting in a more robust tax system.

Table 4.12: Corruption and wastage in Government are very high

Category	Freq.	Percent
Agree	34	16
Disagree	5	2
Neutral	4	2
Strongly Agree	167	80
Strongly disagree	0	0
Total	210	100

Source: Primary data -Stata

The results tabulated above show that an overwhelming majority of respondents believe that corruption and wastage in government are very high. A combined 96% of respondents strongly agreed (80%) or agreed (16%) with the statement. Only 2% of respondents disagreed, and another 2% remained neutral, while none strongly disagreed.

These findings indicate a strong consensus among respondents that corruption and inefficiency are prevalent in government. The extremely high percentage of agreement (96%) reflects a widespread perception of distrust in how government resources are managed. This belief may contribute to the reluctance of some SME owners to comply with tax obligations, as they may feel that their tax contributions are being misused or wasted, fuelling a lack of motivation to support the tax system. The results underscore Hyera and Isango (2024:44) and Mrindoko and Nyange (2024:4), who revealed that older businesses and married owners are more likely to comply with tax obligations, while perceptions of corruption negatively impact compliance. The small percentage of neutral and disagreeing responses (2% each) suggest that there is little opposition to or ambivalence about the perception of corruption and wastage. These results underscore the importance of improving government transparency, efficiency, and accountability to rebuild trust among taxpayers. Addressing these concerns could lead to improved tax compliance, as individuals and businesses feel more confident that their tax payments are being used for the greater good rather than lost to corruption or inefficiency. Furthermore, the study assessed whether SMEs' evasion taxes since the government receives enough tax, and the results are presented in Table 4.13 below.

Table 4.13: If some SMEs evade tax, it is not an issue as the Government receives enough tax

Category	Freq.	Percent
46. Agree	8	4
47. Disagree	26	12
48. Neutral	12	6
49. Strongly Agree	34	16
50. Strongly disagree	134	62
Total	210	100

Source: Primary data -Stata

The findings indicate that most participants, with 62% strongly disagreeing and 12% disagreeing, totalling 74%, viewed it as a concern when certain small and medium enterprises avoid paying taxes, even though the government collects sufficient tax income. Meanwhile, 16% completely agreed and 4% agreed with the statement, totalling 20% who believed that tax evasion by certain SMEs is not an issue. At the same time, 6% of SMEs had no opinion on the matter.

These results indicate that most participants consider tax avoidance by small and medium enterprises a significant problem despite the government receiving significant tax income from other avenues. The considerable opposition (74%) shows that most SME owners acknowledge the significance of adherence and feel that all businesses, regardless of size, should support the tax system. This could indicate worries about equity since tax noncompliance from certain companies could unfairly impact law-abiding SMEs. The 20% who agreed or strongly agreed may have believed that the government is already gathering enough tax income from big businesses or other areas; so, evasion by certain SMEs does not significantly affect public finances. The 6% of neutral responses indicate a lack of certainty or mixed feelings regarding the overall effects of tax evasion on the government's financial well-being. The findings support those of Amoh *et al.* (2023), who emphasise how most of their respondents viewed tax compliance as a shared duty and consider tax evasion by any segment of SMEs, highlighting the importance of maintaining enforcement and education efforts to guarantee that all SMEs fulfill their tax responsibilities. The current study also assessed the perceptions of SMEs regarding the punishment of evading tax, and the results are presented in Table 4.14 below.

Table 4.14: Tax evaders should pay monetary penalties and serve a jail sentence

Category	Freq.	Percent
51. Definitely yes	72	34
52. I do not know	95	45
53. Probably not	43	21
Total	210	100

Source: Primary data -Stata

The findings show conflicting views on whether tax evaders should receive fines and imprisonment. Some 45% of respondents showed uncertainty regarding the appropriate consequences for tax evasion by answering, "I do not know." In the meantime, 34% strongly believed that tax evaders should be subjected to harsh consequences, such as imprisonment, by choosing "definitely yes" as their response. In contrast, 21% of participants said, "Likely no", showing resistance to severe repercussions.

These results indicate a lack of agreement on the suitable penalties for tax evasion. The significant level of uncertainty (45%) could suggest that numerous SME owners are uncertain about the trade-off between financial penalties and criminal consequences regarding tax evasion. This could also indicate a lack of understanding or information about the existing legal regulations regarding tax evasion. Those who backed severe punishments, such as imprisonment, probably thought that harsh consequences would act as a successful deterrent against tax evasion. On the other hand, the 21% who disagreed with this method may think that fines are enough or that imprisonment is too harsh for tax crimes. The results, however, contradict Farrar and King (2023:289), who stated that tax compliance increases when a fraud perpetrator is punished only when the perpetrator is perceived as blameworthy. These findings suggest a call for increased education or conversation regarding the consequences of tax evasion penalties, given the significant uncertainty indicating that many survey participants are uncertain about their perceptions of fair and practical consequences for non-compliance. Explaining the outcomes of tax evasion may influence more substantial views and enhance adherence.

Table 4.15: I feel obliged to always pay tax

Category	Freq.	Percent
54. Definitely yes	94	45
55. I do not know	16	7

56. Probably not	100	48
Total	210	100

Source: Primary data -Stata

The results in Table 4.15 above indicate that participants are nearly equally divided in their sense of duty to settle taxes. While 45% firmly stated that they felt a strong obligation to always pay taxes with a definitely yes response, while a slightly larger group of 48% answered with a probably not answer, indicating that they were not as committed to consistently paying taxes. At the same time, 7% of the participants were uncertain and answered with "I am unsure". These results emphasise a significant discrepancy in perspectives on tax adherence. The 45% who acknowledge a clear responsibility to pay taxes probably understand the significance of supporting public services and the legal obligations for tax compliance. This group seems to have a strong sense of responsibility when it comes to paying their taxes.

Nonetheless, the 48% who did not have a strong sense of duty to pay taxes could have viewed the tax system as onerous, unjust, or lacking direct advantage to them. This group may be more willing to engage in tax evasion or non-compliance, possibly seeing the system as unfair or unjust. The 7% of uncertain people may not fully grasp the tax system or their responsibilities, causing them to be unsure of their obligations. The findings indicate that although many participants grasp the significance of paying taxes, almost half lack a strong feeling of obligation to follow tax regulations. This narration underscores Sithebe (2022), who states that tax authorities face a challenge in promoting a stronger sense of civic responsibility and transparency regarding using tax revenues to benefit the community. As such, it stands to reason that SMEs feel obligated to pay tax, which may push the owners to comply. While this is the case, the research further assessed the perception of SMEs in terms of why people evade tax, and the results are presented in Table 4.16 below.

Table 4.16: Main cause of SMEs evading tax

Category	Freq.	Percent
57. Accumulation of Wealth	14	7
58. Because of high rates	87	41
59. Corruption	1	1
60. Cost of living is too high	35	17
61. Education around tax	2	1
62. Government corruption	33	16

63. Low educational level	13	5
64. People are indebted	8	3
65. People want quick money	1	1
66. Poor advises of tax	14	7
67. Theft	1	1
68. Things are expensive	1	1
Total	210	100

Source: Primary data -Stata

The table shows that 41% of SMEs attributed tax evasion to the belief in high tax rates. This aligns with previous studies that frequently point to high tax burdens as a key driver of businesses engaging in tax evasion (Kaçamak, 2024:18). Small and medium-sized enterprises, which usually have lower profit margins, are especially prone to being affected by tax hikes, causing them to turn to tax evasion to stay afloat. The next most frequently mentioned cause is the high living expenses (17%), which supports research indicating that during tough economic times, people and companies prioritise survival over following tax laws (Hoy *et al.*, 2024:720). In this situation, small and medium-sized enterprises might avoid paying taxes to manage increasing operational and personal expenses.

Government corruption also played a significant role (16%), indicating lack of faith in the management of tax funds. According to the literature, corruption, whether perceived or actual, can lower SMEs morale and make tax evasion more likely (Idrus, 2024:889). Small and Medium-Sized Enterprises are less inclined to follow the rules when they feel their money is not well spent. Additional significant factors are lack of adequate tax knowledge (7%) and limited levels of education (5%). Donga *et al.*, (2016:66) state that a lack of knowledge about tax duties and systems significantly hinders compliance, particularly in developing nations. Education programmes are frequently suggested as a solution to enhance tax compliance. Surprisingly, occurrences of "fast cash" and "stealing" were only reported 1% of the time, indicating they are not significant motivators for tax evasion in small and medium enterprises. In short, recent literature provides strong evidence for the key factors contributing to tax evasion in SMEs in this study, namely elevated tax rates, economic challenges, and government corruption. Dealing with these problems could involve changes in tax regulations and initiatives to enhance policies.

4.4 Empirical Results and Analysis

This section presents the results of the model used to establish the determinants of tax evasion and the effect of tax evasion determinants on tax evasion. In alignment with the study's methodological approach, which incorporated Exploratory Factor Analysis (EFA), the preliminary steps entailed conducting the Kaiser-Meyer-Olkin (KMO) measure and the Bartlett Test of Sphericity (BTS) to validate the applicability of factor analysis. Subsequently, factor analysis and factor loadings were executed to ascertain the influential factors contributing to tax evasion. The reliability of the findings was assessed using Cronbach's alpha. To ensure the model's accuracy, it was scrutinised for potential misspecification errors. Diagnostic evaluations included the application of the Variance Inflation Factor (VIF) to detect multicollinearity. In addition, the dataset underwent heteroscedasticity testing, following which the regression model was appropriately adjusted using the Ordinary Least Squares (OLS) estimator.

4.4.1 Kaiser-Meyer-Olkin and Bartlett Test of Sphericity

Knapp and Swoyer (1967:13) elucidate that before executing a factor analysis on sample data, it is crucial for researchers to initially examine the sample relationship matrix to discern its significant deviation from the identity matrix. This study implemented the Bartlett Test of Sphericity (BTS), a statistical assessment designed to evaluate the correlation matrix for significant interrelationships among variables within the dataset, as Silva, Sabino, Lanuza, Adina, Villaverde and Pena (2014) outline. The BTS's significance is a prerequisite, indicating the presence of adequate inter-relations to justify the execution of factor analysis. In addition, the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy is required to exceed 0.5. The Bartlett Test of Sphericity conducted for this data produced the results below.

Table 4.17: Kaiser-Meyer-Olkin and Bartlett Test of Sphericity

Determinant of the correlation matrix	
Det	0.004
Bartlett test of sphericity	
Chi-square	1089.811
Degrees of freedom	276
p-value	0.000
Ho: variables are not intercorrelated	
Kaiser-Meyer-Olkin Measure of Sampling Adequacy	

KMO	8
-----	---

Source: Primary data -Stata

Table 4.17 displays the outcomes of the Kaiser-Meyer-Olkin (KMO) measure, and the Bartlett Test of Sphericity employed to evaluate the appropriateness of the data for factor analysis. The Bartlett Test of Sphericity showed a chi-square value of 1089.811 with 276 degrees of freedom and a p-value of 0.000, signifying significance at the 1% level. This validates that the variables are correlated, and the data are suitable for factor analysis. In addition, a KMO measure of sampling adequacy of 0.800 strengthens the adequacy of the sample for analysis.

These results align with the research outcomes of a study by Yalama and Gumus (2013:15), which found a KMO of 0.798 and a Bartlett Test of Sphericity with a chi-square value of 3183.308 when studying factors influencing tax evasion behaviour. Both studies confirm that the data are suitable for factor analysis, indicating that the selected variables are suitable for additional statistical analysis. The following section presents the results of the factor analysis conducted for the study.

4.4.2 Factor analysis

Factor analysis constitutes a structured methodological approach used to distill a multitude of interconnected measurements into a more manageable set of factors (Foster, Plant & Stanton, 2020). This technique was applied to collectively examine all pertinent variables to extract underlying factors that align with the first objective of the research. The implementation of exploratory factor analysis involves critical decision-making at three fundamental stages, namely (1) determining the number of factors to be extracted, (2) selecting an appropriate extraction method, and (3) choosing a suitable rotation technique. The execution of factor analysis in this study was meticulously conducted to address these decision points, as illustrated below.

Table 4.18: Factor analysis

Factor analysis/correlation		Number of obs	=	210
Method: principal-component factors		Retained factors	=	9
Rotation: orthogonal varimax (Kaiser off)		Number of params	=	180

Factor	Variance	Difference	Proportion	Cumulative
Factor1	3.59987	1.72282	0.1500	0.1500
Factor2	1.87705	0.11637	0.0782	0.2282
Factor3	1.76068	0.16765	0.0734	0.3016
Factor4	1.59304	0.14859	0.0664	0.3679
Factor5	1.44444	0.13426	0.0602	0.4281
Factor6	1.31018	0.00768	0.0546	0.4827
Factor7	1.30250	0.02904	0.0543	0.5370
Factor8	1.27346	0.06258	0.0531	0.5901
Factor9	1.21088	.	0.0505	0.6405

LR test: independent vs. saturated: chi2(276) = 1095.26 Prob>chi2 = 0.0000

Source: Primary data -Stata

The main objective of this study was to determine the main factors of tax evasion by utilising factor analysis as a central methodological strategy. Following Yalama and Gumus (2013:15), the research commenced by assessing the Kaiser-Meyer-Olkin (KMO) measure to confirm the data's appropriateness for factor analysis. The orthogonal rotation technique, known as varimax rotation, recommended by Bonnet and Wright (2014:3), was used in the exploratory factor analysis to condense many variables into a smaller number of independent factors effectively. Varimax rotation was especially beneficial in streamlining the variables with high loadings on each factor, enhancing clarity and understanding of the outcomes. This approach was essential in reaching Objective 1, which sought to pinpoint the most significant factors impacting tax evasion. As indicated in Table 4.18 above, the research kept nine elements, pinpointing q2, q8, q10, q3, q6, q4, and q14 as the primary factors influencing tax evasion. Significantly, the literature identified q2, q8, q10, and q4 as essential factors in tax evasion. The researcher determined that the seven factors identified are dependable indicators of tax evasion.

The factors q2, q8, q10, q3, q6, q4, and q14 have been determined to be reliable indicators of tax evasion as they align with theoretical frameworks and empirical research. First, q2 (likelihood of being caught) is consistent with the deterrence theory, suggesting that people are less inclined to avoid paying taxes if the chances of getting caught increase. Likewise, q8 (tax rate schedule) and q10 (high tax rates) indicate the

financial pressure caused by progressive or high tax systems, which are frequently mentioned in studies as reasons for tax evasion (Goerke, 2003:189).

Moreover, there is a direct connection between q3 (fairness in taxes) and q4 (inequality in finances) with the perceived fairness of the tax system. Research by Palili *et al.* (2013:124) indicates that views of unfairness or inequality led to non-compliance. Furthermore, q6 (complexity of the tax system) plays a role in tax evasion by making compliance more difficult and increasing the attractiveness of evasion tactics. Ultimately, q14 (moral obligation) highlights the importance of ethical principles in tax compliance, with a more significant moral stance leading to less tax evasion. These elements offer a thorough and well-backed structure for comprehending the motivators behind tax evasion. The following section presents factor loadings in the study.

Table 4.19: Factor loadings

Rotated factor loadings (pattern matrix) and unique variances sorted

Variable	Factor1	Factor2	Factor3	Factor4	Factor5	Factor6	Factor7	Factor8	Factor9	Uniqueness
Q_2	0.7599	0.0849	0.0099	0.0480	-0.1902	-0.1543	-0.1446	0.0268	0.0485	0.3290
Q_8	-0.7490	-0.0115	-0.1696	0.0459	-0.1122	0.0882	-0.0629	-0.1913	0.1913	0.3105
Q_10	-0.7053	-0.0612	-0.1337	-0.2224	-0.0656	0.1595	-0.3049	0.1035	0.0520	0.2953
Q_3	-0.6948	0.1904	0.1293	0.1361	0.0243	-0.1727	0.0225	0.0358	-0.1176	0.3997
Q_6	0.5834	0.3384	0.1655	0.0860	0.1867	-0.0728	0.0847	-0.1201	-0.1942	0.4108
Q_4	0.5703	0.2369	0.1384	0.3039	0.2560	0.1168	0.1779	0.0973	-0.0921	0.3784
Q_14	-0.4650	-0.1138	0.4462	-0.2202	0.0084	0.0712	0.0311	0.1583	0.2039	0.4505
Q_9	0.0442	-0.8257	-0.0050	0.1857	0.1136	-0.0373	0.0926	0.0190	0.1181	0.2446
Q_5	0.1793	0.6437	0.1052	0.2952	0.1336	-0.0737	0.1330	0.0288	0.0686	0.4088
Q_17	0.4196	0.4864	0.0850	0.1957	-0.1483	-0.1302	0.2676	0.0926	0.0777	0.4166
gender	-0.1530	-0.3908	0.2071	-0.1624	-0.2287	0.1619	0.3898	0.1030	-0.2946	0.4267
Q_12	0.0219	0.1321	0.7852	-0.0375	-0.0262	-0.0142	0.0012	0.0073	0.0044	0.3631
Q_11	0.3632	-0.0856	0.6867	0.1508	0.1170	-0.1078	-0.0494	-0.0275	0.0033	0.3379
Q_18	-0.0082	-0.1428	0.0416	0.7467	0.0872	-0.0038	0.0646	0.0662	0.0974	0.3947
Q_1	0.3052	0.1645	-0.0292	0.6354	-0.2093	-0.0653	-0.1085	-0.0922	-0.0924	0.3983
Q_15	0.0499	-0.0657	0.0280	-0.0377	0.8017	0.1637	0.0315	0.0849	-0.0181	0.3130
age	0.0992	-0.1303	-0.2073	-0.2171	-0.4498	0.2715	0.0285	0.2222	0.2347	0.5018
industry	-0.0060	-0.1066	-0.3689	-0.0622	0.3836	-0.3334	0.2416	0.3570	0.1177	0.3906
position	-0.0971	-0.0141	-0.0355	-0.0105	0.0966	0.8782	0.0171	-0.0507	0.0208	0.2051
Q_13	0.2100	0.2264	0.3328	0.2248	0.1074	-0.3618	0.1850	-0.0892	-0.1515	0.5358
Q_16	0.0947	0.0097	-0.0453	0.0125	0.0478	-0.0021	0.8780	-0.0719	0.0208	0.2099
Q_7	-0.1054	0.0021	0.0121	0.0478	-0.1249	0.0828	0.1014	-0.8043	-0.0574	0.3035
levelEduca~n	-0.1984	0.0445	0.0690	0.3074	-0.2955	0.1073	0.0091	0.5426	-0.3178	0.3651
types	-0.1219	-0.0471	0.0279	0.0251	-0.0354	0.0340	0.0125	0.0030	0.8607	0.2381

Source: Primary data -Stata

Table 4.19 above reports the rotated factor loading. As mentioned above, the present research employed Orthogonal extraction that was accompanied by varimax rotation, aiming to condense the extensive array of variables into a more manageable subset.

This technique elucidates the weightings of variables for each factor through rotation loadings, highlighting the associations between the variables and the respective factors. Loadings approaching -1 or 1 indicate a substantial influence of the factor on the variable, whereas loadings near 0 imply a minimal impact. The factors strongly influencing the variable will contribute most to that specific variable. Based on the factor loadings, variables were classified and labelled as - Q1 Tax Evasion; Q2, Probability of detection; Q8, Shape of the tax rate schedule; Q10, High tax rates; Q3, Tax fairness; Q6, Tax system; Q4, Fiscal inequity, and Q14, Moral obligation. It is imperative to check for reliability. The following section presents Cronbach Alpha results.

4.4.3 Cronbach Alpha – reliability test

Cronbach Alpha is used to measure reliability coefficients for survey instruments that use multiple questions on a Likert scale-response set (Bonett & Wright, 2014:3). The acceptable scale for Cronbach Alpha is shown in Table 4.20 below.

Table 4.20: Acceptable Cronbach Alpha Scale

Coefficient of Cronbach's Alpha	Reliability level
More than 0.90	Excellent
0.80 – 0.89	Good
0.70 -0.79	Acceptable
0.60 – 0.69	Questionable
0.50 – 0.59	Poor
Less 0.50	Unacceptable

Source: (Bonett and Wright, 2014)

Table 4.20 reflects the acceptable Cronbach alpha scale guidelines as a reliability test. The results of the study's Cronbach alpha reliability test are shown in Table 4.21 below.

Table 4.21: Cronbach Alpha reliability test

Test scale	Standardised items
Reversed items	Q2, Q6, Q4
Average interitem correlation	0.3742
Number of items in the scale	7
Scale reliability coefficient	0.8071

Source: Primary data -Stata

Table 4.21 reports the results of Cronbach's alpha reliability test of the study. The study's scale reliability coefficient is 0.80, which indicates that questions 2,4 and 6 are reliable and can better explain determinants of tax evasion. The scale's reliability was well above 0.70 for questions 3, 8, 10, and 14. This suggests a commendable degree of internal consistency observed among the study's items, affirming the measurement model's satisfactory reliability and validity. Having determined the reliability test, the following section presents diagnostic tests to determine the goodness fit of the models used in the study.

4.4.4 Diagnostic tests

Regression diagnostics, a critical component of regression analysis articulated by Ferré (2009:33), seeks to validate the congruence between the formulated model, its underlying assumptions, and the observed data. This process also involves the identification of any outliers that might disproportionately influence the regression, potentially leading to skewed results; it can also detect if a strong relationship exists among the independent variables, which may affect the overall results. Tests for - possible misspecification error, multicollinearity, and heteroscedasticity were performed in this study to ensure that the appropriate model was selected.

Table 4.22: Test for possible misspecification

Ramsey RESET test using powers of the fitted values of Q1	
Ho	Model has no omitted variables
F(3,119)	1.54
Prof > F	0.2066

Source: Primary data -Stata

Test for misspecification: Decision → No misspecification

Table 4.22 above presents the results of the misspecification test for this study. This test is essential as it evaluates the informative value of the model, helping to detect and isolate any specification errors that may exist. According to Cribari-Neto, Santana-e-Silva and Vasconcellos (2024), such tests assist in refining models that may otherwise be rejected. The Ramsey RESET test was applied to assess potential misspecification arising from the use of primary data in the linear regression model. The results in Table 4.22 indicate no evidence of model misspecification, as the F-

statistic of 1.54 and the corresponding p-value of 0.2066 suggest that the model does not suffer from omitted variable bias. Thus, the null hypothesis that the model has no omitted variables could not be rejected. The study tested for possible misspecification that could arise from using the primary data on the linear regression model using the Ramsey RESET test. The findings indicated the absence of model misspecification, as evidenced by the data presented in Table 4.22 above.

The results of the multicollinearity test conducted for this study are presented in Table 4.23 below.

Table 4.23: Test for multicollinearity

Variable	VIF	1/VIF
Q10	1.86	0.538547
Q8	1.78	0.562355
Q4	1.66	0.602786
Q2	1.60	0.625366
Q6	1.59	0.629880
Q3	1.30	0.767248
Q14	1.18	0.849401

Source: Primary data -Stata

Test for multicollinearity: Decision - No concerning collinearity as all VIF < 4

Khadka (2015:25) indicates that multicollinearity is present when two or more independent variables in a regression model are strongly correlated, possibly influencing the estimates. The Variance Inflation Factor (VIF) is utilised to assess the extent of collinearity by evaluating the inflation of variance in a regression coefficient caused by collinearity. A VIF value of 1 shows no relationship, while values from 1 to 5 imply a moderate relationship and values over 5 indicate a high relationship. In this research, all Variance Inflation Factor (VIF) values were under 4, as displayed in Table 4.23 above, indicating the absence of significant multicollinearity problems among the variables. Hence, it was determined that multicollinearity was not an issue in this model. VIF values under 4 indicate the absence of significant multicollinearity among independent variables, which means the variables are not causing excessive inflation in regression coefficient standard errors. This guarantees the model's estimates are reliable and accurate. Hence, the model is statistically valid for interpretation and analysis.

Table 4.24: Test for heteroskedasticity

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity	
Ho	Constant Variable
Variables	Fitted value of Q1
Chi2 (1)	0.12
Prob > chi2	0.7264

Source: Primary data -Stata

Test for heteroskedasticity: Decision → No heteroskedasticity

Table 4.24 above reports the results of the heteroskedasticity test for this study. Heteroskedasticity tests for a situation where the variance of the residual or error term in a regression model differs widely. The primary aim of a heteroskedasticity test is to determine the constancy of the residual variance. A fundamental presupposition in linear regression employing Ordinary Least Squares (OLS) methodology, as posited by Khadka (2015:15), is the constancy of residual variance. As demonstrated in Table 4.24, under the constructed hypothesis, the p-value exceeds 0.05. Consequently, this leads to the conclusion that the variance of the residuals remains constant, indicating homoscedasticity and the absence of heteroskedasticity. The Breusch-Pagan / Cook-Weisberg test results, with a p-value of 0.7264, indicate no evidence of heteroskedasticity in the model. This means that the residuals' variance is constant, confirming homoscedasticity. Consequently, the model's assumptions hold, ensuring reliable and unbiased regression results.

4.4.5 Regression analysis

Regression analysis is a reliable method to identify which variable impacts a topic of interest, such as “tax evasion”. Regression Ordinary Least Squares results are presented in the table below.

Table 4.25: Regression Ordinary Least Squares (OLS) results

Source	SS	df	MS	Number of obs = 210		
Model	79.715556	7	11.3879366	F(7, 202) = 10.26		
Residual	224.208253	202	1.10994185	Prob > F = 0.0000		
				R-squared = 0.2623		
				Adj R-squared = 0.2367		
Total	303.92381	209	1.45418091	Root MSE = 1.0535		

Q_1	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
Q_2	.1797305	.0587994	3.06	0.003	.0637911	.2956699
Q_8	.3592595	.1269361	2.83	0.005	.1089697	.6095492
Q_10	-.4555486	.2280658	-2.00	0.047	-.9052436	-.0058535
Q_3	.2296523	.0938266	2.45	0.015	.0446472	.4146574
Q_6	.1060017	.0736024	1.44	0.151	-.0391258	.2511292
Q_4	.2735413	.1034905	2.64	0.009	.069481	.4776015
Q_14	-.3391935	.0996762	-3.40	0.001	-.5357328	-.1426542
_cons	1.394777	.7303474	1.91	0.058	-.0453055	2.834859

Source: Primary data -Stata

Q1, Tax Evasion, Q2, Probability of detection, Q8, Shape of the tax rate schedule, Q10, High tax rates, Q3, Tax fairness, Q6, Tax system, Q4, Fiscal inequity and Q14, Moral obligation.

The regression outcomes for this study are delineated in Table 4.25 above, where the organisation of variables is consistent with the structure used in the factor analysis. This table elucidates the influence of various independent variables on tax evasion among Small and Medium Enterprises (SMEs) in Limpopo Province. In this analysis, the dependent variable is identified as tax evasion (q1), and the independent variables include probability of detection (q2), shape of the tax rate schedule (q8), high tax rates (q10), tax fairness (q3), the tax system (q6), fiscal inequity (q4), and moral obligation (q14). These variables were employed to execute the regression analyses.

Table 4.26: Regression results

Linear regression					Number of obs = 210	
					F(7, 202) = 16.33	
					Prob > F = 0.0000	
					R-squared = 0.2623	
					Root MSE = 1.0535	
Q_1	Coef.	Robust Std. Err.	t	P> t	[95% Conf. Interval]	
Q_2	.1797305	.0570698	3.15	0.002	.0672016	.2922594
Q_8	.3592595	.1167887	3.08	0.002	.1289781	.5895408
Q_10	-.4555486	.2128889	-2.14	0.034	-.875318	-.0357791
Q_3	.2296523	.1029524	2.23	0.027	.0266532	.4326515
Q_6	.1060017	.0682845	1.55	0.122	-.0286401	.2406436
Q_4	.2735413	.0982944	2.78	0.006	.0797265	.4673561
Q_14	-.3391935	.0965517	-3.51	0.001	-.5295719	-.1488151
_cons	1.394777	.684528	2.04	0.043	.04504	2.744514

Source: Primary data -Stata

Q1, Tax Evasion, Q2, Probability of detection, Q8, Shape of the tax rate schedule, Q10, High tax rates, Q3, Tax fairness, Q6, Tax system, Q4, Fiscal inequity and Q14, Moral obligation.

Regression results with robust standard errors (perfects heteroskedasticity and multicollinearity)

The study utilised regression analysis with robust standard errors to determine the directional impact of tax evasion determinants on tax evasion, aligning with sub-objective (a) of the research. As delineated in Table 4.26, the variables q2, q8, q3, q6, and q4 demonstrate a positive relationship with q1, indicating that an augmentation in these independent variables corresponds to an increase in the dependent variable. Conversely, q10 and q14 correlate negatively with q1, suggesting that an increase in these independent variables decreases the dependent variable. The analysis reveals that an escalation in the probability of detection (q2) is associated with an increase in tax evasion, contrary to existing literature, which posits a decrease in tax evasion with heightened detection likelihood. Regarding the shape of the tax-rate schedule, the findings indicate that its increase leads to a rise in tax evasion, corroborating literature that suggests that a progressive tax-rate schedule encourages tax evasion. High tax rates influence tax evasion negatively, diverging from the literature that argues that increased tax rates coupled with penalty rates on evaded tax should reduce, not elevate, tax evasion.

The study also uncovers a positive relationship between the perception of fiscal inequity and tax evasion, aligning with the literature reviewed, such as Kassa (2021:8),

Anesa and Bressan (2024). Similarly, a positive relationship exists between tax fairness, the tax system, and tax evasion, suggesting that perceived tax unfairness concerning the government's provision of public goods and the behaviour of other SMEs can motivate tax evasion. The research further reveals that the perception of the tax system significantly influences tax evasion.

Moral obligation is negatively correlated with tax evasion, contrasting with literature that views moral obligation as a deterrent to tax evasion, such as Oberholzer and Stack (2014a:228). Sub-objective (b) focused on determining the magnitude of the impact of tax evasion determinants. This was assessed by examining the coefficients, with ideal values ranging between 0.0 and 1.0, indicating a lesser or greater relationship with tax evasion. The results show that variables q2, q8, q3, q6, and q4 correlate more significantly with tax evasion, while q10 and q14 are less so.

In addition, sub-objective (c), assessing the significance of the impact of tax evasion determinants, was analysed using regression. Here, p-values were employed to gauge the significance of these effects. As per Table 4.26, all variables exhibit statistically significant results at $P < 0.1$, except for q6, suggesting a genuine relationship rather than a coincidental one.

4.5 Empirical Findings and Literature Reviewed

This research employed EFA to identify tax evasion determinants and perform requisite assessments confirming the data's appropriateness for factor analysis. The outcomes of the OLS regression analysis revealed that factors such as the probability of detection, shape of the tax rate schedule, high tax rates, tax fairness, the tax system, fiscal inequity, and moral obligation constitute the determinants of tax evasion as identified in the study conducted within Limpopo Province. Table 4.27 below illustrates the discerned relationships between the dependent and independent variables.

Table 4.27: Observed relationships between dependent and independent variables

Dependant Variable	Independent Variable	Relation	Positive/Negative Impact
	Q2: Probability of detection	Significant	Positive
	Q8: Shape of the tax rate schedule	Significant	Positive

Tax evasion	Q10: High tax rates	Significant	Negative
	Q3: Tax fairness	Significant	Positive
	Q6: Tax system	Insignificant	Positive
	Q4: Fiscal inequity	Significant	Positive
	Q14: Moral obligation	Significant	Negative

Source: Researcher's own conceptualisation

The OLS regression results presented in Table 4.27 highlight the relationship between tax evasion and several independent variables. The following sections discuss the dependent and independent variables compared to existing literature to identify notable differences. Tax Evasion (q1): This study focuses on tax evasion as the dependent variable, aiming to identify its determinants through a survey conducted among SMEs in Limpopo Province.

Discussion of results: insights into study variables

1. To Identify the Determinants of Tax Evasion by SMEs in Limpopo Province

Probability of Detection (q2): The results reveal a significant positive relationship between the likelihood of detection and tax evasion, which contrasts with Richupan (1984) and Mansor and Gurama (2016), who found an inverse relationship.

Tax Fairness (q3): A positive relationship between perceptions of tax fairness and tax evasion was observed. This aligns with Palili *et al.* (2013), who noted that perceptions of fairness influence tax evasion. However, it diverges from Richardson's (2006) findings of a negative link between fairness and evasion.

Fiscal Inequity (q4): A significant positive relationship exists between fiscal inequity and tax evasion, indicating that SMEs might evade taxes owing to perceived disparities. This is supported by Oberholzer and Stack (2014a), Mansor and Gurama (2016), and Kassa (2021).

2. To Assess the Effect of the Determinants on Tax Evasion by SMEs in Limpopo Province

Tax System (q6): The tax system showed a positive but statistically insignificant relationship with tax evasion. This partially contradicts the findings of Oberholzer and

Stack (2014b), who emphasise the importance of the tax system in influencing evasion.

Shape of the Tax Rate Schedule (q8): A significant positive relationship was found between the tax-rate structure and tax evasion, consistent with Goerke (2003) and Mansor and Gurama (2016), who note that progressive tax rates often encourage tax evasion.

3. To Assess the Direction of the Influence of Various Determinants on Tax Evasion by SMEs in Limpopo Province

High Tax Rates (q10): A negative relationship between high tax rates and tax evasion found in this study was contrary to popular belief. This, however, aligns with Yitzhaki (1974), who suggested that penalties on evaded taxes lead to this inverse relationship.

4. To Evaluate the Magnitude of the Impact of Tax Evasion Determinants on Tax Evasion Behaviour by SMEs in Limpopo Province

Moral Obligation (q14): A significant negative relationship between moral obligation and tax evasion was identified, supporting the view that moral obligation can deter tax evasion, as noted by Oberholzer and Stack (2014b).

5. To Determine the Significance of the Effects of Tax Evasion Determinants on Tax Evasion Practices by SMEs in Limpopo Province

The empirical results reveal that determinants such as fiscal inequity, tax fairness, and moral obligation significantly impact tax evasion practices. In contrast, the effect of the tax system remains statistically insignificant.

4.6 Conclusion

This section presented the results and interpretations of the data obtained via the questionnaire. The presentation of results encompassed descriptive statistical measures, frequency distributions, and narrative forms. These results were subsequently juxtaposed with the literature review to extract insightful interpretations. The subsequent section provides a conclusion to the study. The outcomes of the different statistical tests carried out in this study firmly back up the durability and

dependability of the regression model utilised to examine the factors influencing tax evasion in SMEs. Starting with the misspecification test, the Ramsey RESET test found no indication of model misspecification, indicating that the model effectively captures the connections between the dependent variable (tax evasion) and the independent variables. This guarantees that the model is accurately defined and lacks significant mistakes that could harm its credibility.

The VIF multicollinearity test determined that there are no significant issues with multicollinearity between the independent variables. All VIF values were less than 4, showing modest or weak relationships between the variables, guaranteeing the estimates' reliability and preventing inflated standard errors. In addition, the Breusch-Pagan / Cook-Weisberg test showed that the model meets the assumption of homoscedasticity, as indicated by a p-value of 0.7264. This validates that the residual variance remains constant, indicating the absence of heteroskedasticity in the model, preventing inaccurate and biased estimations. In these tests, misspecification, multicollinearity, and heteroskedasticity confirm the model's statistical validity and appropriateness for making meaningful inferences. Identified factors of tax evasion, including high taxes, fair taxation, fiscal inequality, and ethical responsibilities, have proven to be dependable predictors supported by statistical results and existing research. This enhances the validity of the results. The research introduces a validated model that accurately identifies the significant factors that impact tax evasion in small and medium-sized enterprises. These findings offer valuable information for policymakers looking to tackle tax compliance problems, indicating that changes in tax rates, enhancing perceptions of tax fairness, and addressing fiscal disparities may decrease tax evasion. Moreover, the study will improve SMES's awareness of ethical responsibilities.

CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This section serves as the culmination of the investigation, offering a comprehensive overview of the study's scope, delineating its limitations, presenting recommendations for future research, and concluding with final remarks. The conclusions drawn in subsequent sections align with the study's objectives. The dataset under scrutiny comprises information collected from a specifically chosen sample of 210 Small and Medium Enterprises (SMEs) subjected to analysis through Exploratory Factor Analysis (EFA) and regression.

The study aimed to establish the determinants of tax evasion in Limpopo Province, the effects of these determinants on tax evasion, the direction of the influence of tax evasion determinants on tax evasion, the magnitude of tax evasion determinants' effect on tax evasion, and the significance of tax evasion determinants' effect on tax evasion. It was discerned that specific findings align with prior research, albeit with some novel and contrasting trends observed.

5.2 Summary Determinants of tax evasion amongst Small and Medium-Sized Enterprises in Limpopo Province

Using OLS regression, the study established the probability of detection, shape of the tax rate schedule, high tax rate, tax fairness, tax system, fiscal inequity, and moral obligation as the key determinants of tax evasion in Limpopo Province, South Africa. This means the main objectives were achieved. The results showed that high tax rates and moral obligations were negatively and significantly correlated with tax evasion, suggesting the presence of a negative relationship between heightened tax rates and tax evasion, a relationship similarly observed with moral obligation. To elaborate, an escalation in tax rates or moral obligation is associated with a reciprocal decrease in tax evasion and vice versa. In addition, a positive and significant relationship was

identified concerning variables such as the likelihood of detection, the structure of the tax rate schedule, perceptions of tax fairness, and fiscal inequity. This implies that an augmentation in any of these variables is likely to parallel an increase in tax evasion, and conversely.

Conversely, the association between the tax system's complexity and tax evasion was positive yet statistically insignificant, indicating that enhancements in the tax system do not markedly influence tax evasion levels. Drawing from these observations, the study concludes that the relationship between the configuration of the tax schedule, perceived tax fairness, fiscal inequity, and tax evasion exhibits a positively significant relationship. These outcomes are in alignment with the research conducted by Goerke (2003), Mansor and Gurama (2016), Palili *et al.* (2013), Oberholzer and Stack (2014b), and Kassa (2021).

A positive and significant relationship with tax evasion was noted regarding the probability of detection. However, this finding contrasts the conclusions of Richupan (1984) and Mansor and Gurama (2016), who postulated a negative relationship between the probability of detection and tax evasion. In addition, the study concludes that the relationship between the tax system and tax evasion is positive yet insignificantly correlated, while negative and significant for high taxes and moral obligation. The findings concur with those of Yitzhaki (1974), Oberholzer and Stack (2014a).

5.3 Implications and recommendations for stakeholders

The study results provide an essential understanding for the South African Revenue Service, the government, and researchers. The outcomes can guide the creation of policies to address disparities in the tax system, leading to a decrease in tax evasion and an enhancement in revenue collection within the Limpopo Province

5.3.1 Implications for Stakeholders

The determinants that influence tax evasion by SMEs in Limpopo Province, SA were revealed in this study. These determinants include probability of detection, shape of the tax rate schedule, high tax rate, tax fairness, tax system, fiscal inequity, and moral obligation. Key implications are as follows:

1. Probability of Detection

A higher chance of non-detecting tax evasion relates to increased tax evasion. These results suggest that other factors, such as fear of penalties and trust in the system, may influence the behaviour.

2. Shape of the tax rate schedule, tax fairness, and Fiscal Inequity

SMEs perceived unfair tax systems or fiscal inequity as reasons to evade taxes. Ensuring fair policies and simplifying tax structures can help reduce evasion in Limpopo Province.

3. High Tax Rates and Moral Obligation

Tax evasion tends to increase when tax rates are too high, or the moral obligation to pay taxes is weak. Education and awareness of moral obligation could reduce tax evasion.

4. The complexity of the Tax System

The tax system's complexity was positively linked to tax evasion, but this relationship was not statistically significant. This means simplifying the system may have limited immediate effects, but compliance could improve over time.

5.3.2 Recommendations for Stakeholders

The study's findings reflect a need for policymakers to design a tax system that encourages compliance and reduces evasion by attending to the key determinants of tax evasion. The following recommendations are crucial:

1. Tax Authorities and Policymakers

- To discourage tax evasion amongst SMEs while maintaining enough revenue collection, tax authorities may consider lowering tax rates.
- Tax authorities must also build trust with SMEs while ensuring transparency and fairness in the tax system.

- They must concentrate on educational campaigns to enhance the SME's moral obligation and understand the necessity of paying taxes.

2. Government

- To address fiscal inequities, the government must ensure that public resources are distributed fairly, and that SMEs see the benefits of their contributions.
- The government must invest more in systems and tools to monitor tax compliance while balancing enforcement with SME education to avoid resentment.

3. Academics and Researchers

- There is need for researchers to produce studies on the long-term effects of moral obligation and fairness on compliance behaviour by SMEs.

5.4 Limitations of the study

Tax evasion has consistently been a focal scholarly inquiry topic within developed and developing nations. However, an in-depth examination of the primary factors influencing tax evasion at a provincial level remains unexplored. Predominantly, existing research in this domain has been conducted within national or international scopes.

The study encountered certain constraints. The demographic focus of the investigation was limited solely to SMEs. The study did not encompass individuals, primarily because of the reduced likelihood of tax evasion among natural persons, whose primary income typically stems from salaries or wages. Another limitation pertains to the geographical scope of the data collection. This intentional approach aimed to identify the determinants of tax evasion within a specific province, laying the groundwork for subsequent analyses encompassing multiple provinces. The study used a close-ended Likert scale response questionnaire to get the study data. It is evident from the reviewed literature that it is difficult to get valid/accurate data from respondents about tax evasion as they probably think if they are honest with their

answers, the researcher will probably report them to SARS; therefore, the study could have possibly identified different factors if it was an open-ended questionnaire used on business owners and managers. This study was able to source the primary data after the pilot study was done to test for the goodness fit of the questionnaire since errors could sometimes arise from using primary data. Despite these limitations, the analysis yielded meaningful results.

5.5 Recommendations for Future Studies

Given the concentration of this study on establishing determinants of tax evasion in Limpopo Province only, this study may serve as a pioneer study or literature base for other researchers if they are conducting similar research for other provinces. A future study could also be conducted on establishing determinants of tax evasion focusing on a cross-provincial investigation, in which a comparison will be possible on a provincial level.

As the study acquired the data using a questionnaire survey, one can only assume that the respondents answered the survey honestly and truthfully. Future studies on determinants of tax evasion could consider using secondary data from reports from reputable institutions, such as Statistics South Africa (StatsSA) or SARS.

5.6 Conclusion

Tax evasion represents a significant societal issue confronting developed and developing nations, garnering substantial interest in academic research. The primary objective of this investigation was to identify the determinants of tax evasion within the Limpopo Province. This study aimed to ascertain whether the influencing factors in this region differ from those identified in national-level studies, such as Richardson's (2006) multi-country analysis, which highlighted determinants including age, gender, education, income level, source of income, marginal tax rates, perceptions of fairness, complexity, interaction with revenue authorities, and tax morale. Similarly, Adebisi and Gbegi (2013), identify determinants like tax rates, inequitable facility distribution, governmental mismanagement of tax revenues, and a lack of civic responsibility. These findings suggest that the factors motivating tax evasion are varied and

potentially distinct across different provinces and nations, accentuating the need for diverse and region-specific future research.

The results of this study highlight factors such as the probability of detection, perceived tax fairness, fiscal inequity, the tax system, the structure of the tax rate schedule, high tax rates, and moral obligation as key determinants of tax evasion in Limpopo Province, thus addressing the study's central research question. Furthermore, the impact of these determinants was thoroughly analysed in Chapter 4. Consequently, it can be concluded that the study successfully met the objectives outlined in Chapter 1.

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ANNEXURE A: RESEARCH QUESTIONNAIRE

1. Gender *

Mark only one oval.

☐ Female

☐ Male

2. Age *

Mark only one oval.

☐ 18-35

☐ 36-45

☐ 46-55

☐ 56-65

☐ 65 & Above

3. Level of Education *

Mark only one oval.

☐ Matric (Grade 12)

☐ Certificate

☐ Diploma

☐ Degree/Honours

☐ Masters/PhD

4. Position in the organisation *

Mark only one oval.

- ☐ Owner
- ☐ Manager
- ☐ Owner & the Manager

Section B

Statements related to tax evasion, compliance, penalties and other factors

5. Determinants of tax evasion 1

Mark only one oval per row.

	Agree	Strongly Agree	Neutral	Disagree	Strongly Disagree
If I decide to evade tax, SARS will notice	☐	☐	☐	☐	☐
People evade tax because chances of being caught are very low	☐	☐	☐	☐	☐
Paying tax is unfair	☐	☐	☐	☐	☐
It will be fair if tax is paid by wealthy individuals only	☐	☐	☐	☐	☐
Training is required to use e-Filing system	☐	☐	☐	☐	☐

6. Determinants of tax evasion: 2

Mark only one oval per row.

	Agree	Strongly Agree	Neutral	Disagree	Strongly Disagree
I do not know how to calculate my own tax liability, as it is complicated	☐	☐	☐	☐	☐
Tax rates are too high, therefore, they should be reduced	☐	☐	☐	☐	☐
Everyone should pay the same income tax rate (%), regardless of the income earned	☐	☐	☐	☐	☐
Many people are forced by the situation to evade tax as the burden of tax is heavy	☐	☐	☐	☐	☐
Tax evasion is encouraged by high taxes	☐	☐	☐	☐	☐

7. Determinants of tax evasion:3

Mark only one oval per row.

	Agree	Strongly Agree	Neutral	Disagree	Strongly Disagree
Corruption and wastage in Government are very high	☐	☐	☐	☐	☐
The Government is not transparent about the usage of SMEs' money	☐	☐	☐	☐	☐
If some people evade tax, it is not an issue as Government receives enough tax	☐	☐	☐	☐	☐
I work hard for my money so it should be allowed if I want to keep my money to myself	☐	☐	☐	☐	☐
I support the current government	☐	☐	☐	☐	☐

8. Tax Penalties and SMEs' attitude *

Mark only one oval per row.

	Definitely yes	I do not know	Probably not
Tax evaders should pay monetary penalties & serve a jail sentence. Would you consider these penalties unreasonable?	☐	☐	☐
I feel obliged to always pay tax	☐	☐	☐

9. What do you think is the main cause of people evading tax? "Your Opinion" *

Thank you for taking your time to complete this questionnaire!!!

ANNEXURE B: EDITING CERTIFICATE

Independent Editor Dr Nhlanhla Landa	landamasuku@gmail.com +27835841854
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Professional
EDITORS
Guild

CERTIFICATE OF EDITING

This document certifies that a copy of the dissertation whose title appears below was edited for proper English language usage, grammar, punctuation, spelling, and overall style by Dr Nhlanhla Landa whose academic qualifications and professional affiliation appear in the footer of this document. The research content and the author's intentions were not altered during the editing process.

TITLE: THE DETERMINANTS OF TAX EVASION AMONGST SMALL AND MEDIUM-SIZED ENTERPRISES (SMEs): EVIDENCE FROM LIMPOPO PROVINCE, SOUTH AFRICA

AUTHOR: TSHILIDZI ANTHETHIA NEMALILI (STUDENT NUMBER 17001765)

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DATE: 05 FEBRUARY 2025

EDITOR'S COMMENT

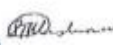
The author was advised to effect suggested corrections regarding clarity of terms, consistency in structure and logic, in-text references, and expression. The reference list was not edited.



Signature

PhD Applied Linguistics (UFH), MA Applied Linguistics (MSU), BA (Honours) English and Communication (MSU)
Professional Membership: A member of the Professional Editors Guild, South Africa

ANNEXURE C: ETHICS APPROVAL CERTIFICATE

ETHICS APPROVAL CERTIFICATE		RESEARCH AND INNOVATION OFFICE OF THE DIRECTOR												
NAME OF RESEARCHER/INVESTIGATOR: Mrs TA Nemailli STUDENT NO: 17001765 PROJECT TITLE: <u>The Determinants of Tax Evasion amongst Small and Medium-Sized Enterprises (SMEs): Evidence from Limpopo Province, South Africa.</u> ETHICAL CLEARANCE NO: FMCL/23/ACC&AUD/04/0905 SUPERVISORS/ CO-RESEARCHERS/ CO-INVESTIGATORS <table border="1" style="width: 100%; border-collapse: collapse; text-align: center;"> <thead> <tr> <th>NAME</th> <th>INSTITUTION & DEPARTMENT</th> <th>ROLE</th> </tr> </thead> <tbody> <tr> <td>Prof NF Munzhelele</td> <td>UNIVEN, Accountancy</td> <td>Supervisor</td> </tr> <tr> <td>Mr MP Ndou</td> <td>UNIVEN, Accountancy</td> <td>Co-Supervisor</td> </tr> <tr> <td>Mrs TA Nemailli</td> <td>UNIVEN, Accountancy</td> <td>Investigator – Student</td> </tr> </tbody> </table> Type: Masters Research Risk: Straightforward research without ethical problems (Category 1) Approval Period: May 2023 – May 2024 The Research Ethics Social Sciences Committee (RESSC) hereby approves your project as indicated above. General Conditions While this ethics approval is subject to all declarations, undertakings and agreements incorporated and signed in the application form, please note the following: * The project leader (principal investigator) must report in the prescribed format to the REC: - Annually (or as otherwise requested) on the progress of the project, and upon completion of the project. - Within 48hrs in case of any adverse event (or any matter that interrupts sound ethical principles) during the course of the project. - Annually a number of projects may be randomly selected for an external audit. * The approval applies strictly to the protocol as stipulated in the application form. Would any changes to the protocol be deemed necessary during the course of the project, the project leader must apply for approval of these changes at the REC. Would there be deviation from the project protocol without the necessary approval of such changes, the ethics approval is immediately and automatically forfeited. * The date of approval indicates the first date that the project may be started. Would the project have to continue after the expiry date; a new application must be made to the REC and new approval received before or on the expiry date. * In the interest of ethical responsibility, the REC retains the right to: - Request access to any information or data at any time during the course or after completion of the project. - To ask further questions; Seek additional information; Require further modification or monitor the conduct of your research or the informed consent process. - withdraw or postpone approval if: - Any unethical principles or practices of the project are revealed or suspected. - It becomes apparent that any relevant information was withheld from the REC or that information has been false or misrepresented. - The required annual report and reporting of adverse events was not done timely and accurately. - New institutional rules, national legislation or international conventions A it necessary			NAME	INSTITUTION & DEPARTMENT	ROLE	Prof NF Munzhelele	UNIVEN, Accountancy	Supervisor	Mr MP Ndou	UNIVEN, Accountancy	Co-Supervisor	Mrs TA Nemailli	UNIVEN, Accountancy	Investigator – Student
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Mr MP Ndou	UNIVEN, Accountancy	Co-Supervisor												
Mrs TA Nemailli	UNIVEN, Accountancy	Investigator – Student												
ISSUED BY: UNIVERSITY OF VENDA, RESEARCH ETHICS COMMITTEE Date Considered: April 2023														
Name of the RESSC Chairperson of the Committee: Prof TS Mashau Signature  														
 UNIVERSITY OF VENDA PRIVATE BAG 3500, TROMPSBURG, 0841, LIMPOPO PROVINCE, SOUTH AFRICA TELEPHONE 018 360 9400 FAX 018 360 9401 "A quality driven financially sustainable, rural based Comprehensive University"														