

**‘...AND THEIR HEARTS AND MINDS WILL FOLLOW...?’  
Tax Collection, Authority and Legitimacy in Democratic South Africa**

**by  
Dumisani Hlope and Steven Friedman**

*‘...political underdevelopment stems to a larger degree from low levels of dependence of state elites on their own citizens.’<sup>1</sup>*

There is an obvious sense in which resource collection is crucial to Southern states: they need funds to perform their functions and, the more they are able to raise these from domestic sources, the less dependent are they on the politics of aid in Northern countries. But there may be a less obvious dimension to the problem. Thus Moore has suggested that the state’s ability to extract resources from domestic actors creates a need to respond to citizens. Logically, the contrary also holds: the more the state derives its resources from foreign aid, or rents derived from commodities traded in world markets, the less the state elite will be oriented to responding to the needs of citizens. Thus, not only does domestic resource extraction through tax enhance the fiscal viability of the state – it makes other forms of political viability more likely by creating a continuing incentive for responsiveness: ‘increased taxation produces unintended consequences such as growing demands for political participation and thus demands for a growing popular say in local politics’ - hence the familiar slogan: ‘No taxation without representation.’<sup>2</sup>

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<sup>1</sup> Mick Moore, ‘Political Underdevelopment; What Causes ‘Bad Governance’? Public Management Review, 3(3), 2001. See also Mick Moore ‘Death without taxes: democracy, state capacity and aid dependence in the fourth world’, in M Robinson and G White (eds.). *The democratic developmental state: politics and institutional design*. Oxford Studies in Democratisation. Oxford, Oxford University Press, 1998

<sup>2</sup> The World Bank and the IMF: *Tax, Democracy and shrinking aid in Sub-Saharan Africa*

Does this mean that tax dependent states must also respond to the poor? Not necessarily. Even if these theories are accurate, there is no necessary link between the tax dependency of states and their responsiveness to the poor. Taxpayers are not a homogenous group – the state may have different attitudes to different groups of taxpayers while taxpayer groups may have differing attitudes to the state. Logically, we would expect the tax dependent state to respond to those who pay most. In any system with even a mild progressive element, the poor will not be the chief contributors. The theory, therefore, may accurately identify a factor which forces state elites to respond to *some* citizens, placing restraints on their freedom of action. But it is consistent with an unwillingness by state elites to address poverty. Nevertheless, states which are not forced to respond to any citizens are unlikely to address the needs of the poor and so the ability to raise revenue from domestic sources is a necessary if not sufficient condition for the development of Southern states responsive to the poor. Similarly, states which cannot raise resources from their more affluent citizens to fund programmes which aim to reduce poverty will not be able to address the needs of the poor. Domestic revenue collection by Southern states is thus a crucial topic if we are to understand how states in the South might become more viable in general – and more responsive to the poor in particular.

South Africa presents an important case study: in the second half of the 1990s, as democracy began to be established after the defeat of apartheid, the country has achieved consistent and, in some cases, dramatic improvements in revenue collection (see Table 1). This offers an obvious laboratory for the study of the conditions for enhanced domestic resource collection in the South. But it is an important case for second reason. If, following Moore, we see taxation as a consequence of a relationship between state and citizen, then it is very important that we understand the means by which this implied ‘social contract’ is constituted. The collection of taxes can be seen as largely a managerial challenge – a matter of sharpening the coercive and administrative machinery of the state to ensure that citizens’ monetary obligations to it are accurately determined and efficiently collected. But it is also possible to see it as a political process in which citizens meet their obligations as a consequence of actual or implied negotiation. From this perspective, the legitimacy of the tax regime cannot be assumed. It must

be established through a bargain between citizens and the state that contains elements of both persuasion and coercion.<sup>3</sup> In South Africa, these questions seem particularly significant. On the one hand, most affluent citizens are still white. Since whites have recently lost political power and white people harbour reservations about the competence and probity of a black-led government, we might expect legitimacy of the state and taxation to have declined in the eyes of whites. The case is enriched by the fact that political change has stimulated the emergence of a black middle class which is assumed to support the democratic order. Although the overwhelmingly black poor population do not pay income tax, they do contribute to the fiscus through user charges and, most importantly, value added tax.<sup>4</sup> If the white population provides a test case of tax compliance among a group expected to accord low legitimacy to the state, studying black taxpayers offers a test for the view that political support translates into voluntary tax compliance.

This article seeks to explore these questions by analysing available data on the sources of South Africa's enhanced revenue collection. Since it is an initial foray at the outset of a study of resource generation, the data are restricted to published revenue figures and interviews with officials in the revenue service. We will argue that, at first glance, the evidence may seem to suggest that tax collection in South Africa is indeed purely a matter of administration. We will, however, suggest also that this finding may be less straightforward and conclusive than it seems.

### **Democracy and Compliance**

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<sup>3</sup> See also Khehla Shubane 'A Question of Balance' in Khehla Shubane and Ros Atkins *The Right Thing: Two perspectives on public order and human rights in South Africa's emerging democracy*, Johannesburg, Centre for Policy Studies, 1998

<sup>4</sup> Poor people obviously do not pay VAT directly to the state when they purchase commodities. However, many of the poor are engaged in informal or petty trade and are thus expected to pay VAT over to the authorities. VAT collections do therefore provide a crude marker of tax compliance among the poor.

Before examining the tax data, let us note that South Africa, like several other African countries, appears to provide little support for theories tracing compliance with public obligations to a 'social contract' in which governments earn their legitimacy by demonstrating a capacity to meet citizens' instrumental needs. In most of post-colonial Africa, it is the ruling party's involvement in decolonisation that earns its government authority and legitimacy. Liberation movements turned into ruling parties largely earn their legitimacy because that they are the liberators and so responsible for the sense of freedom among the previously dominated. What the ruling party did in the liberation period counts for more than its performance in government. This explains why it took almost thirty years for Zambians to remove from power liberation hero-turned president, Kenneth Kaunda. In Zimbabwe, 22 years after liberation, President Robert Mugabe still uses liberation rhetoric to rally support. In Namibia, President Sam Nujoma manipulated liberation sentiments to amend the constitution so to allow himself a third presidential term. It is thus not necessarily how post-colonial African governments resource themselves and how they respond to the needs of their citizens that earn them legitimacy, but a higher claim to have been 'responsible for the liberation'. It is common for criticism of government to be met by state officials asking where the complainant was 'during the liberation struggle.' Liberation legitimacy is not eternal: deeper into the post-colonial period, growing frustration with the state's inability to deliver on the mandate of improving living standards of the formerly colonised leads to a significant decline. Zambia is but one example<sup>5</sup>. But liberation legitimacy has a lengthy lifespan.

South Africa is no different. The ruling African National Congress (ANC) also boasts the historical capital of being 'the liberator' and it is from this that it derives its legitimacy. It will retain this status until it is seen to have turned its back on that role. If experience elsewhere is a guide, this can take at least a generation. But, if this means that government legitimacy does not rest on effective performance, it does not necessarily mean that 'liberation capital' is a source of

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<sup>5</sup> Michael Bratton and Nic Van de Walle *Democratic Experiments in Africa: Regime Transitions in Comparative Perspective*. Cambridge, Cambridge University Press, 1997

authority. Voters could thus see the post-colonial period as one of an absence of state-imposed constraint – and so continue to support the government but refuse to meet their obligations.

As noted above, white South Africans are assumed to harbour deep misgivings about majority rule. This we might expect to prompt deep reluctance to pay tax. But one study<sup>6</sup> has argued that apartheid implanted a culture of payment in whites – who were contributing to ‘their’ government – which has survived (although conceivably in weakened form) into the post-apartheid era. Like their black counterparts then, white taxpayers may be expected to act in one way if they are guided by present sentiment, quite another if they follow past practice. In neither case would we necessarily expect tax payment behaviour to be determined by the current quality of government.

### **Transforming Revenue Collection in South Africa**

South Africa’s enhanced revenue collection performance<sup>7</sup> is the result of a sustained campaign by the South African Revenue Services (SARS), the main institution responsible for the administration and collection of national taxes, duties and levies - a task it associates with ‘the protection of the national economy’.<sup>8</sup> It is an autonomous taxation body established by legislation.

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<sup>6</sup> Evan Lieberman ‘National Political Community and the Politics of Income Taxation in Brazil and South Africa in the 20<sup>th</sup> Century’ *Politics and Society*, Vol. 29, No. 4, December 2001: 515-56.

<sup>7</sup> This account is based largely on SARS’s own documents – its strategic plan for 2001/2002 and beyond and its Annual Report 2000/2001.

<sup>8</sup> SARS strategic plan for 2001/2002 and beyond.

Democratisation brought with it the need to address through state programmes the racially based maldistribution of resources. Democratisation occurred after a decade in which political conflict had reduced significantly the state's ability to extract resources. Thus, it requires in part the transformation of the processes and means of revenue collection as well as the redistribution of outcomes. The former task was assigned to SARS. But, while attempts at enhanced revenue collection have been bearing fruit since 1995/96, the process of transformation began in earnest in February 2000<sup>9</sup> when a study sought to identify critical areas and possible solutions. By September 2000, the resultant plan had been presented and approved by the Minister of Finance and the Cabinet<sup>10</sup>. It is thus in the last two tax years that the most dramatic collection gains have been achieved.

Three issues are of critical importance in the transformation of SARS: the environment, global and domestic; structural organisation and internal dynamics; and the attitudes of the various tax paying populations.

The transformation of SARS took place in a global economic environment marked by increasing pressures for economic and trade liberalisation. The jury is still out on the impact of trade liberalisation on domestic revenue collection.<sup>11</sup> On the one hand, it results in lowering of tariffs, reducing an important source of state finance. On the other hand, it is assumed to produce increased economic activity, which broadens the tax base. Ultimately, it is argued, the challenge lies in the creation of an efficient tax administration system to tap into the emerging economic activity.<sup>12</sup> The South African government shares this position. Part of the process of transforming SARS has been an attempt to meet the emerging challenges of increased fluidity in

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<sup>9</sup> SARS Annual Report 2000/2001

<sup>10</sup> *ibid*

<sup>11</sup> World Bank and IMF, *op.cit.*

<sup>12</sup> *ibid*

global trade reflected in exports and imports. Moreover, SARS had to contend with growing trends in international commercial fraud, 'smuggling and the global trafficking of illicit drugs and other dangerous substances.'<sup>13</sup> This created a greater need for customs and excise collection capacity.

Second, Fana Zulu, SARS' media liaison officer, notes that SARS, through a process dubbed *Siyakha*, sought to change its internal structure and workings.<sup>14</sup> He calls this the actual business transformation of SARS, which aims to build new rules to maximise revenue collection. Its approach was to go beyond the more common form of post-apartheid institutional change – mere change of staff to reflect the demographics of the country – to identify the kind of internal structural organisation, business rules and ethics necessary to maximise its mandate. The result is reflected in three strategies:

**Compliance:** This is tackled in two ways. One is to encourage taxpayers to voluntarily pay their dues to SARS. Workshops are organised to determine the reasons for not complying with tax obligations while encouraging people to pay. The other relies more on coercion. SARS uses investigators and auditors to lay criminal charges against those who fail to comply, and to use publicity to embarrass and deter defaulters. This has involved the publication of the names of high profile individuals and corporations and an attempt to encourage media coverage of arrests and court appearances. Two cases stand out. A top soccer club owner and businessman, Irvin Khoza, was arrested in 2001 and charged with tax default. A commercial chain store, Metcash was also prosecuted. In both cases, there was unprecedented media attention. In the latter case, SARS's campaign may have been helped ironically by the fact that the company took its case to the constitutional court, lost and was made to pay almost 120 million Rand. Zulu argues that this was a major boost because the

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<sup>13</sup> SARS Annual Report 2000/2001

<sup>14</sup> Interview, 23/2/2 Pretoria. 'Siyakha' is a Zulu word meaning; 'We are building/constructing'

case sent a strong message to the corporate world that SARS has the resources and means to go all the way to ensure that no individual or company is excused the obligation to pay tax.

**Tax Payer Service:** This offers the tax paying public a means to interact with SARS offices, establishing easy means of communications between the two. The service is meant to address queries and act sympathetically to taxpayers who voluntarily comply with their obligations.

Zulu argues that a well functioning taxpayer service will yield greater compliance.

**Processing centres:** These seek to develop a business technology capable of handling the tax process from beginning to end. Rather than tax queries, for example, having to be transferred to the head office, the aim is to decentralise through relevant technology such that a query can be handled in any part of the country from its beginnings to the end. The aim is to develop a similar system to that in banks. Taxpayers are meant to be able to visit any SARS processing centre anywhere in the country and have their entire enquiry dealt with completely and effectively.

Transformation in taxpayer attitudes, however, remains the one dimension lagging behind. If SARS officials are correct, the surge in revenue collection has very little to do with more positive citizen attitudes towards the use of state funds. In fact, the contrary appears to be true. Teboho Mokoena, a SARS official,<sup>15</sup> indicates that, among the many reasons that taxpayers advance for not paying is the claim that 'government officials are corrupt'. More striking is that even some SARS officials who participated in SARS workshops advanced the same reason for their reluctance to pay taxes! So why then are more citizens paying more tax?

According to Mokoena, recent successes are due to the structural changes embarked on by SARS. Beyond the broad focuses mentioned above, they include the expansion of offices; concentration on specific business activities for investigation; enhanced administrative ability to

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<sup>15</sup> Interview, 23/2/2



process tax transactions; development of a compliance unit and an enhanced technological network. Another SARS official, I.V. Mazorodze, a Customs Transformation Advisor, also cites recruitment of staff from a corporate background as a source of increased efficiency. In sum, the officials see enhanced performance as the outcome of more effective management, not of enhanced legitimacy. What, if anything, might the revenue collection figures have to say about this view?

### **SARS's Achievements**

SARS 'exceeded the printed revenue target of R212.2bn by R7,4bn as well as the revised estimate of R215,5bn in revenue for the year ended 31 March 2001'<sup>16</sup> This was achieved not only by extracting more from tax-payers – the tax base also grew. In the 2000/2001 tax year, the number of individual taxpayers grew by 14%, and the number of companies by 16%.<sup>17</sup>

According to SARS, this is due to, among other factors:

- Increased vigour in enforcing compliance. This included the targeting of industries suspected of tax evasion, such as electronics.
- Dealing effectively with SARS officials engaged in bribery and corruption.

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<sup>16</sup> SARS Annual Report 2000/2001

<sup>17</sup> SARS attributes the increase in individual taxpayers to 'education campaigns' and greater ability to identify payers. The increase in companies is ascribed to SARS campaigns. But the number of individual employees paying Pay-As-You-Earn Tax collected by employers declined by 1%, that of vendors paying VAT by 11% between July and September 2000. No reason is offered for the decline in PAYE, but increases are recorded after that, possibly 'due to closure of tax loopholes'. The VAT decrease appears to be a result of a change in the law allowing vendors whose total value of taxable supplies fell between 150 000 and 300 000 Rand to deregister. *ibid.*, p.30

- Effective investigation bolstered by partnerships with the police as well as the National Directorate of Public Prosecutions (NDPP) and its specialised investigation unit, the Scorpions.<sup>18</sup>
- The introduction of enabling legislation that allows SARS to collect revenue while disputes are proceeding.
- Administrative policy changes and the introduction of advanced technology for tax collection. The latter has been outsourced to an external contractor in what SARS identifies as a 'mutually beneficial agreement'.<sup>19</sup>

SARS's belief that enhanced revenue collection is a result of greater ability to coerce is evident in its stress on the number of fines it has been able to recover by initiating legal action.<sup>20</sup>

**(Tables 1 and 2 about here)**

Table 1 indicates a marked increase in revenue collections between 1995/96 to 1999/00, especially in the last two years. According to the report, this is the result of increased collection capacity from individuals rather than companies. But collections from companies also increased to 6.2 billion Rand beyond the estimates 'largely due to a more effective application of legislation.' VAT has been constant at 500 million Rand above the estimates, particularly in the period between 1998/2001.

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<sup>18</sup> 'Thus far a total civil liability against taxpayers amounts to over R200m of which R50m has already been collected. A further R50m has been secured by way of securities...' *ibid.*, p.42

<sup>19</sup> *ibid.* p.7

<sup>20</sup> SARS's 2000/2001 report declares that it has placed 107 cases on the court roll and has secured 27 convictions. Individuals successfully prosecuted have received total sentences of 121 years in prison; fines of 2.2 million Rand have been imposed and 500,000 Rand has been recovered through prosecutions. Annual Report, p.42

The data in Table 2, relating to the fiscal year 2000/01, demonstrate that income tax is not only the largest revenue source but also the one for which collections most exceeded the original Printed Estimates – by 5 billion Rand. This includes company tax, which was responsible for much of the increase.<sup>21</sup> SARS says this was not only due to increased compliance but also ‘legislative changes to the taxation of the long term insurance industry, as well as higher company profits’. This acknowledges that increased receipts are not always the result of enhanced collection efficiency. Similarly, the increase in VAT collections above the estimate is attributed not only to enhanced enforcement but to increases in private consumption expenditure ‘boosted by income tax reduction and lower landing rates’, increase in prices due to an equivalent rise in oil prices internationally and the devaluation of the Rand. The category ‘Others’ refers to Transfer Duties which were an estimated 37% greater in 2000 than in 1999. This was due to lower mortgage rates, which prompted increased purchase of property.

### **Discernible Trends**

Perhaps the most important point about this trend is that there is no evidence linking it to enhanced citizen confidence in government.<sup>22</sup> While there is some survey evidence claiming increasing approval for the quality of governance by white citizens<sup>23</sup> this is contested by other surveys and is, in any event, not overwhelming. Nor is there evidence that this follows a bargain, explicit or implicit, between the government and the affluent. On the contrary, the government says it still plans to seek such a bargain through, among other interventions, a Growth Summit

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<sup>21</sup> Interview, Zulu

<sup>22</sup> Robert Mattes, Yul Derek Davids and Cherrel Africa *Views of Democracy in South Africa and the Region: Trends and Comparisons*, Cape Town, Institute for Democracy in South Africa, 2000

<sup>23</sup> Human Sciences Research Council survey reported in *Business Day* 15/11/00

scheduled for later in 2002.<sup>24</sup> Nor has there been any sign that the state feels obliged to be more responsive to the citizenry. Rather, what appears to be gaining ground is 'delegative democracy', the strengthening of liberal institutional democracy with low levels of participation. This, with SARS's stress on the managerial aspects of collection, suggests that enhanced collection is indeed a consequence of managerial improvements. Research pointers thus far indicate that the state has not yet established a rapport with the tax paying public and corporate institutions to effect voluntary compliance on tax payments. While incentives are being afforded to the 'willing payer', it still appears that it is fear of prosecution that drives many to pay their dues. An analysis of the data, however, suggests a more complicated explanation.

Despite the increase in company tax, personal tax, including VAT, is the highest revenue source. Finance Minister Trevor Manuel highlighted this early this year: 'Personal income tax is South Africa's most important revenue resource contributing nearly 37% of main budget revenue in 2001/02.'<sup>25</sup> Despite increases in company tax revenue, SARS also seems to see personal taxes as a more promising source than that from companies. Mokoena identifies them as 'largely already available tax revenue'<sup>26</sup>. He insists that the bigger challenge is corporate tax, transfer duties and customs duty, which SARS literally has to 'go out there, demand and collect'. Whilst this may be true of all forms of taxation, he notes that SARS has to release investigators and auditors to go into corporate institutions to inspect books to ensure that they pay according to their actual profits. And in many cases, corporate institutions have their own tax experts who seek to ensure that they pay the lowest possible taxes. As Manuel noted, 'tax is avoided by

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<sup>24</sup> Thabo Mbeki *State of the Nation Address to the Joint Sitting of the Houses of Parliament* 8 February 2002, Cape Town

<sup>25</sup> Trevor A Manuel *Budget Speech by the Minister of Finance*, Cape Town, 20 February 2002

<sup>26</sup> Interview, Mokoena

aggressive tax planning, while purportedly adhering to the letter of the law.<sup>27</sup> Indeed, one source notes that, just as SARS has sought to build its capacity to levy tax by recruiting officials with a knowledge of business practice, businesses are now recruiting senior SARS personnel whose knowledge of taxing practice is assumed to offer a head start in avoiding tax.<sup>28</sup> This raises the possibility that some SARS ‘gains’ may prove temporary as companies develop more efficient avoidance techniques. Just as firms have greater capacity to avoid tax than individuals, so do the more affluent enjoy more capacity to avoid tax than the poor.

SARS officials do not have direct insights into the minds of taxpayers. They base their judgement on actual behaviour. But they do insist that, the higher up the economic ladder individuals are, the easier they find it to reduce the tax they pay. Thus blue-collar workers are said not to be ‘tax conscious’ in the sense that they are unaware of ways of legally reducing their payments. These less affluent taxpayers lack the knowledge and resources to engage the services of tax experts who would manoeuvre the system to their benefit. On the other end of the scale, Mokoena does not believe that the legitimacy of the democratic government makes the new black middle class more amenable to meeting their obligations. They are, he says, adopting the same attitudes as their white counterparts. Hence the arrest of a high profile figure such as Khoza to demonstrate to black business people the costs of non-compliance.<sup>29</sup>

But despite these misgivings, the figures quoted here indicate clearly that the collection gains are being achieved primarily among more affluent citizens – since the capacity to pay income tax at all is an indication of some affluence – and larger companies who pay Company Tax. VAT, the

<sup>27</sup> Manuel, Budget Speech, op cit.

<sup>28</sup> Interview, SARS official

<sup>29</sup> Similarly, the Minister of Finance devoted a section of his 2002 budget speech to the criminal sanctions that accompany non-compliance. Manuel, *ibid*.

only tax which offers some insight into the tax behaviour of the poor<sup>30</sup>, has also yielded increased receipts – and the 1.6 billion Rand collected this year is significantly above the average over the past few years. But the gains remain significantly less than those accruing from targeting the affluent, making the latter the key source of collection gains – even if, as SARS officials imply, much more may be needed before anything near the full available amount from this source is collected.

It may also be significant that SARS performed worst in those areas – the fuel levy and customs – in which the state-citizen relation would be expected to play a weaker role. The fuel levy depends on technical factors beyond the scope of this article. Collection of customs and excise<sup>31</sup> do rest to a degree on the willingness of individual citizens to declare their foreign purchases. But it seems likely that these considerations are a tiny part of a larger picture shaped mainly by the actions of smuggling rings and crime syndicates unmoved by questions of legitimacy and authority. The relatively indifferent collection performance in customs and excise follows a substantial donor-initiated programme to enhance performance in this area. SARS suggests that progress is lacking here because appropriate administrative systems are still being developed. This implies that, once the necessary technical preparations are complete, enhanced

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<sup>30</sup> No data are currently available disaggregating VAT payments by income level. However, since the tax is levied at a flat rate, it is by definition regressive.

<sup>31</sup> South Africa is a member of the Southern African Customs Unions (SACU) a revenue pooling arrangement between several Southern African states. Since the SACU revenue share is a significant income item for the budgets of the neighbouring states, revenue collection performance has regional as well as national implications.

performance will follow.<sup>32</sup> Nevertheless, this creates at least the possibility that SARS's managerial capacity is less of a factor than officials believe.

The evidence that managerial technique has played a role is powerful. More efficient coercive techniques have played an important part and even some of 'soft' techniques, such as greater access for taxpayers to officials, could be seen as means to ensure that the coercive elements of the task are performed more efficiently. They do not offer an opportunity to negotiate the terms of taxation, merely to comply without conflict. It may be easy to conclude from this that coercion, not negotiation, is the key to effective revenue collection.

But caveats are in order. Perhaps the most important may be that the coercive techniques succeed only because there is a greater propensity to pay than SARS officials assume. For a variety of historic reasons, South Africans tend to exaggerate the degree of non-compliance with public authority in their society when it is compared with other Southern states. Tax may be no exception, given comparative figures finding that the country has routinely outperformed Brazil in national tax collection.<sup>33</sup> SARS's 'coercive' techniques are rather mild. The staff assume, apparently accurately, that individuals or firms found to be not paying will do so. The resort to public disgrace follows a similar logic, since it is based on the assumption that citizens 'shamed' in this way will feel shame. Contrary to a widespread belief in South Africa, there is nothing 'natural' about this. In parts of China, the arrival of tax collectors is met by riots, while in Brazil it prompts demands for exemption. The absence of these responses in South Africa suggests that its tax collectors benefit from a propensity to pay built up over many years and strong enough to be amenable to sharply higher levels of payment when managerial methods improve.

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<sup>32</sup> 'Much progress has been made in the year under review to complete the preparatory work for the full implementation of the systems. We expect this to be achieved in the first half of the financial year 2001/2' SARS Annual Report, p.53.

<sup>33</sup> Lieberman, op.cit.

This suggests a need to rethink our notions of ‘voluntary’ and ‘coerced’ compliance. Cross-national research<sup>34</sup> suggests that, in the minds of taxpayers, fear of sanctions is the prime reason for paying taxes – in the North as well as the South. But this does not necessarily mean that an ever-present prospect of prosecution is needed to induce this fear. In our case, the emphasis that SARS places on prosecutions must be qualified since relatively few convictions are actually secured – and very little money is directly recovered through this method. Individuals and firms making pure cost-benefit calculations weighing payment against the prospect of getting caught may conclude that the odds remain firmly stacked on the side of the non-payer. We may, therefore, tentatively suggest that a society in which 27 convictions are enough to change tax morality is one in which the culture of compliance with tax obligations is already firmly rooted.

South Africa may offer disappointing lessons for other Southern states: that more effective revenue collection will not succeed unless a culture of payment already exists. It cannot answer the key question of how such a culture may be created. But there is one respect in which it could well prove an invaluable model. By far the sharpest gains are in the formal economy. If the evidence gathered thus far is accurate, the backbone of the tax-paying public (in quality if not quantity, behaviour if not monetary contribution) is the formal employee, who earns enough to pay income tax but not enough to hire advisers in avoidance. And the quantity is provided by affluent taxpayers who will avoid if they can, but pay if they cannot.

Many other Southern countries, particularly in sub-Saharan Africa, find both formal workers and businesses in short supply. They are chiefly interested in taxpayers working in informal environments. Here South Africa’s record remains uncertain. A thorough analysis is needed of VAT payments to determine how much is derived from informal actors and in what circumstances. It may be worth noting that, while the South African government insists that the

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<sup>34</sup> See for example Odd-Helge Fjeldstad ‘Why people pay taxes. The case of the development levy in Tanzania’ *World Development* Vol. 29, No 12, 2059-2074.



2002 budget was ‘pro-poor’, critics have argued that it ‘concentrated on tax relief for workers and not enough on those who do not form part of the tax base’.<sup>35</sup> They add that the poor could have benefited from enhanced collection through the extension of more generous social grants. While the government committed itself to increasing these grants,<sup>36</sup> there is no general grant and the system disregards those between ‘the ages of seven and 59, about 5 million of whom are unemployed.’<sup>37</sup> If, therefore, an instrumental social contract does govern tax collection at this level of the economy and society, the government contribution to that contract remains very limited. Research into the attitudes to tax of people in informal settings will shed light on this question. Whatever the research exercise proposed here reveals about the degree to which South Africa’s seemingly impressive taxing capacity can penetrate its informal economy, the answers are likely to be instructive throughout Africa – and, perhaps the rest of the South.

<sup>35</sup> Albert Van Zyl and Judith Streak *Sowetan* 26/2/ 02 Tax relief for people outside the formal economy would presumably rely on VAT exemptions for commodities consumed by the poor.

<sup>36</sup> Mbeki, op.cit., Manuel, op.cit.

<sup>37</sup> Van Zyl and Streak, Op cit.

**Table 1. Revenue Collection 1995/96 to 2000/01 (in thousand million Rand)**

|  | 1995/96 | 1996/97 | 1997/98 | 1998/99 | 1999/00 | 2000/01<br>(preliminary) |
|--|---------|---------|---------|---------|---------|--------------------------|
| <b>Initial Government Target</b>                     | 125     | 144     | 162     | 177     | 191     | 209                      |
| <b>Special SARS Initiatives*</b>                     | 0.1     | 1.5     | 2.5     | 2.0     | 2.7     | 3.1                      |
| <b>Printed Estimate (Minister's Budget Speech)**</b> | 125     | 145     | 164     | 179     | 194     | 212                      |
| <b>Revised Target (Part Appropriation)***</b>        | 127     | 146     | 164     | 181     | 199     | 216                      |
| <b>Actual Collection</b>                             | 127     | 147     | 165     | 184     | 200     | 220                      |
| <b>Collection in Excess of Printed Estimate</b>      | 1.9     | 1.8     | 1.1     | 5.2     | 6.3     | 7.4                      |

\* - Extra revenue raising assignments which SARS sets itself.

\*\* - Comprising the initial budget plus SARS initiatives.

\*\*\* - The Minister approaches Parliament during the fiscal year for a part appropriation (additional sum). The targets are revised accordingly.

Source: SARS Annual Report 2001/2002

**2. 2000/01 REVENUE RESULTS (in R1000m)**

**Table 2. Revenue Results 2000/01 (in thousand million Rand)**

| <b>Revenue Source</b>     | <b>Printed Estimate (Budget Speech)</b> | <b>Revised Estimate (Part Appropriation)</b> | <b>Preliminary Result</b> | <b>Increase on Printed</b> | <b>Increase on Revised</b> |
|---------------------------|---|--|---------------------------|----------------------------|----------------------------|
| <b>Income Tax</b>         | 121.3                                   | 122.9  | 126.3                     | 5.0                        | 3.4                        |
| <b>Valued Added Tax</b>   | 52.9                                    | 54.0   | 54.6                      | 1.7                        | 0.6                        |
| <b>Customs Duties</b>     | 6.3                                     | 8.0  | 7.8                       | 1.5                        | -0.2                       |
| <b>Fuel Levy</b>          | 16.0                                    | 14.9   | 14.5                      | -1.5                       | -0.4                       |
| <b>Excise Duties</b>      | 10.2                                    | 9.7  | 9.8                       | -0.4                       | 0.5                        |
| <b>Others</b>             | 5.5                                     | 5.9  | 6.6                       | 1.1                        | 0.7                        |
| <b>Total SARS Revenue</b> | 212.2                                   | 215.5  | 219.6                     | 7.4                        | 4.1                        |

*Source: SARS Annual Report 2001/2002*

