

**Tax Compliance Costs for Small Business in South Africa,
Web-Survey of Tax Practitioners
Provincial Data Analysis
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Abstract

At the request of the National Treasury and the South African Revenue Service (SARS), the Foreign Investment Advisory Service (FIAS, a multi-donor facility of the World Bank Group) provided assistance with a set of surveys of tax compliance costs for small and medium enterprises. This paper is based on the results of the first of these surveys – a web-based survey of tax practitioners - and focuses on the differences between the nine provinces in South Africa.

While there was comparatively little variation in the Tax Practitioner Survey by turnover band (confirming the regressive nature of tax compliance costs in South Africa), there appears to be a lot of provincial variation not only in “costs” (where the more urbanized provinces tended, as expected, to be more expensive than other provinces), but also considerably in time indicators. It appears that some SARS provincial offices are more efficient than others, and this varies by tax and by procedure. The rural provinces were often rate relatively well with regard to communications with tax practitioners (perhaps because they have a less onerous case-load), while on the other hand, tax practitioners report a higher frequency of SARS errors in the rural provinces. There may be considerable scope for identifying “best practice” among provinces for various tax services and attempting to analyze and disseminate the key features of their good performance. Further, the lessons of South Africa may be useful for many other developing countries that are interested in mitigating tax compliance costs for SMEs.

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Executive Summary

In many developing countries (both poor and middle-income), business owners complain that tax compliance costs (i.e. cost of preparing, handling and submitting required tax forms to the country's tax authorities) add a serious burden to their operations and significantly affect bottom lines. In South Africa these complaints are compounded by anecdotal evidence that tax compliance costs also prevent a lot of small businesses from registering and joining the "formal" economy.

The National Treasury and the South African Revenue Service (SARS) therefore requested that the Foreign Investment Advisory Service (FIAS, a multi-donor facility of the World Bank Group) assist them with a set of baseline surveys of tax compliance costs for small and medium enterprises. The objective of the surveys was to document tax compliance costs for small businesses in South Africa, to identify the most onerous compliance burdens based on these costs as targets for reform and to serve as a baseline against which future progress could be measured.

The tax practitioner's survey was a large scale country-wide survey of professional tax practitioners whose main job is to help small and medium size businesses (as defined by South Africa Revenue Service (SARS)) comply with the tax requirements imposed by the state. It has been complemented by a direct survey of SMMEs and a survey of informal firms regarding their perceptions of tax compliance.

A report of the Tax Practitioner survey results, which was focused primarily on different turnover bands, was published by FIAS in September, 2007, entitled "Tax Compliance Burden for Small Businesses: A Survey of Tax Practitioners in South Africa".¹ As has been documented for many OECD countries, tax compliance costs are relatively fixed and therefore regressive – a much more onerous burden for small firms than for relatively larger ones.²

This report, based on the same data, focuses more on the differences between the nine provinces in South Africa. Such an analysis is expected to be particularly useful for SARS to understand provincial variation in compliance costs as well as differences in performance of provincial offices, as reported by professional tax practitioners acting on behalf of their SME clients. It may also be useful for tax officials elsewhere in Africa – while South Africa is one of the wealthiest countries in Africa, it is also a classic "dual economy", with a sophisticated urban economy alongside many poorer, lower-capacity rural areas that have many informal firms. The experiences of SMEs in South Africa's more rural provinces may have similarities with other African countries.

¹ Available at: http://www.ifc.org/ifcext/fias.nsf/Content/FIAS_Resources_Country_Reports

² See numerous papers available at the web-site of the International Tax Dialogue: <http://www.itdweb.org/Pages/Home.aspx?lang=3>

Results by Province

Registration for taxes

The average time required for tax registration is about 12.5 hours. Overall, time requirements for tax registration are the highest for the Freestate and Gauteng (about 14 hours), and lowest for Limpopo and the Northern Cape provinces (about 8 hours). Average costs charged by tax practitioners are about R1,500. Highest costs, as expected, are in the heavily urban provinces of Gauteng, Kwazulu Natal, and the Western Cape, where the rates charged by tax practitioners are relatively higher than in more rural provinces.

Issuing of tax registration number

In general time, the taken by provincial offices to issue a tax registration number are longer than envisioned in the SARS “service charter” standard of ten working days. On the basis of the tax practitioner’s responses to the survey, none of the provinces yet meet the SARS goals, although the Northern Cape Province is close for employees’ tax (an average of 2.2 weeks) and VAT (2.8 weeks). The North West Province performs best for Income tax, at 2.5 weeks.

At the other end of the scale, Kwazulu Natal takes the longest time, at 7.1 weeks, to issue a tax registration number for VAT. The Eastern Cape takes the longest for Income tax, at 7.2 weeks, and Limpopo for Employees’ tax (6.6 weeks).

Tax Returns

Tax returns represent the largest single category of tax compliance costs for most SMEs and are therefore worth considering in an attempt to reduce the cost of compliance. On average, tax practitioners in urban areas charge higher fees than those in rural provinces. According to the survey results, tax practitioners in Mpumalanga take the longest time (especially for employees’ taxes) while those in the Northern Cape appear to take the shortest time.

Tax returns processing time

On average for all of South Africa, SARS performs better than its service charter standards (90 working dates for income tax – about 18 weeks; and 20 working days for VAT), but the survey provides evidence that some provinces may be lagging. Both the Northern Cape and Limpopo provinces are taking more time to process income tax returns than specified in the Service Charter, with the Northern Cape taking an average of 26 weeks and Limpopo an average of 19 weeks.

Over time, SARS may strive to tighten its Service Charter standards in this particular area. Both the Western Cape and Kwazulu Natal process income tax returns in 13 weeks or less. For VAT, the Eastern Cape and Gauteng process VAT returns within 2.2 weeks on average.

Tax Refunds

Tax refunds often represent a substantial sum of money owed to a firm, and delays in such refunds thus carry a significant cost to the recipients. The SARS service charter specifies 30

working days (about six weeks) for processing of an income tax refund and 21 days for VAT refunds. In this area, survey respondents in most regions indicate it is taking longer to receive refunds than specified in the SARS service charter, although the Western Cape does manage to process VAT refunds in 4.1 weeks. The best performing province for income tax refunds is Mpumalanga, which take an average of 9 weeks.

At the other end of the scale, the worst performing regions in the survey are the North West Province, which takes 13.2 weeks to process a VAT refund and the Limpopo Province, which takes almost 15 weeks to process an income tax refund.

Penalties and Interest

On average, 5.4 percent of the clients of tax practitioners are charged with penalties or interest for income tax, but the range is considerable – from a high of 6.4% in the FreeState Province to a low of less than 1% in Northern Cape.

For Provisional tax, the range is even larger, with a high of 7.6 percent in the Northern Cape Province to a low of 1.2% in the North West Province. For VAT, the highest is almost 6% in Kwazulu Natal to a low of 1.9 % in the Northern Cape. For Employees' tax, the range is from a high of 8% in the North West province to a low of 1.3% in the Northern Cape. It is interesting to note that the Northern Cape is at an extreme high for provisional tax but an extreme low for Income tax, VAT and Employees' tax (although this may be due to the small number of respondents in that province).

Penalties due to SARS fault

While VAT seems less prone to this problem, with only about 37 percent of respondents citing that it happens “often” or “very often”, the corresponding figures are over 50% for Income Tax and Provisional Tax. For income tax, the range of respondents stating that penalties are paid as a result of SARS error “often” or “very often” is at its lowest in the Western Cape Province, which is also the best province for Employees' tax. For Provisional tax, the best is the North West province and for VAT it is the Eastern Cape.

At the opposite end, the worst performances as reported by tax practitioners is the North West province for income tax, Mpumalanga for provisional tax and VAT, and the Limpopo province for Employees' tax.

Error by clients

By comparison, tax practitioners also find fault with their own clients. The percentage of tax practitioners' work that relates to reworking poor submissions by their own clients on average is over 20%, with the worst averages reported in the rural provinces of the Northern Cape, FreeState, and Mpumalanga, while the best averages are reported in the more heavily urban provinces of the Western Cape, Gauteng, and Kwazulu Natal.

Audits

The average rate inspection by SARS for income tax is 1.7 percent of tax practitioners' clients, but the range is from 0.9 in the Northern Cape Province to 3% in the FreeState Province. For VAT, the average is just over 3%, while the range is from a low of 1.6% in the Limpopo Province

to a high of 5.7% in the Mpumalanga Province. For employees' tax, the range is from a low of 0.3% in the Limpopo Province to a high of 6.2% in Northern Cape Province.

Inspection

The duration of inspections also varies widely especially for employees' tax. While the average is just under 7 hours, the range is from 0.5 hours in the Northern Cape and Mpumalanga to an average of 8.7 hours in Kwazulu Natal. The other urban provinces, the Western Cape and Gauteng, are also relatively high, probably because urban areas are where SMEs are most likely to have a relatively large work-force.

The variation is less striking for income tax and VAT. For income tax, the low end of the range is represented by the Eastern Cape, at 5.6 hours, and the high end is held by Kwazulu Natal, at 18.4 hours. For VAT, the shortest average duration of inspections is 3 hours while in Northern Cape it is an average of 12 hours.

Queries from SARS

The variation is relatively minor in the case of Income tax, ranging from a low of 2.5 percent of tax practitioners' clients receiving such queries in the North West Province up to 5.2 % in the Freestate. For VAT, the range is wider, from 1.1% of businesses in the Eastern Cape Province to 6.1 % of businesses in Mpumalanga. For Employees' tax, the rate is also rather wide, from 2.1% of businesses in Mpumalanga and the North West Provinces to a high of 6.3% in the Eastern Cape.

Other Time Variables

Two other variables related to SARS timeliness were captured by the survey. The first is the time it takes SARS to update its records after notification of taxpayer's address change. The average for all respondents was just under 10 weeks. The best performing province was the Western Cape (just slightly over 8 weeks) followed by the North West province while the longest average time was recorded in the Limpopo province. The service charter standard is 21 working days (just over four weeks).

Call Centre

The SARS service standard is for calls to be answered within 20 seconds (1/3 of a minute). According to SARS data, about 70% of calls in the financial year ending 31 March, 2007 were answered within 20 seconds. The survey data are at variance with this. One possible explanation is that the phone might be answered promptly, but it may take more time before the call is directed to a SARS staff person who is in position to deal substantively with the caller. According to the survey data, the national average time "on hold" with SARS is about seven minutes, ranging from averages of about 5 minutes in the Western Cape, Northern Cape, and Kwazulu Natal Provinces to a high of 15 minutes in the Limpopo province.

Office waiting period

Waiting at SARS (without having made a prior appointment), the SARS service standard is 15 minutes. The Eastern Cape Province is closest to meeting the standard, according to the survey data, at 16 minutes on average. In the Limpopo province, the wait is over a half hour on average.

Suggested Follow up Research

The Tax Practitioner survey yielded a large amount of rich, useful data at relatively little cost and effort. Tax Practitioners are extremely knowledgeable and can make accurate estimates of time and cost estimates of specific procedures. Preliminary comparisons with the results of the direct survey of SMME tax payers show a high degree of consistency. The Tax Practitioner survey seems to be an efficient way to gather information on tax compliance costs on a regular, frequent basis. However, it would still be wise periodically to carry out direct surveys of SMMEs (which are much more expensive and slow) to ensure a thorough understanding of tax compliance costs for SMMEs, including those who do not outsource any tax preparation work.

While there was comparatively little variation in the Tax Practitioner Survey by turnover band (confirming the regressive nature of tax compliance costs in South Africa, as has already been observed in more developed countries), there appears to be quite a lot of variation by province. In the case of “costs” (based on prices charged by tax practitioners to their SMME clients), we are not surprised to see higher costs in the more urban provinces, where fees are relatively higher than in rural areas.

But there is also considerable variation in time indicators, and it is not always an urban/rural divide. Rather, it appears that some SARS provincial offices are more efficient than others, and this varies by tax and by procedure. While there is not a strong pattern, it appears that Western Cape often appears most efficient, while some of the rural provinces appear often to be slow and relatively unresponsive within the context of official procedures. However, the rural provinces often rate relatively well with regard to communications with tax practitioners (perhaps because they have a less onerous case-load), while on the other hand, tax practitioners report a higher frequency of SARS errors in the rural provinces. There may be considerable scope for identifying “best practice” among provinces for various tax services and attempting to analyze and disseminate the key features of their good performance.

SARS service standards are relatively new and perhaps ambitious for many areas covered by the Service Charter. South Africa has, in fact, set some of its standards as high as (or even higher than) those in several OECD member countries, such as Singapore.³ There are many areas where SARS offices are not yet meeting the goals set by the service charter standards, and it will take further work to meet them (e.g., issuing a tax registration number, delivery of tax refunds). Some provinces are doing relatively better than others, and it may be worthwhile to identify “good practice” among SARS provincial offices and disseminate those practices more widely. In cases where all or most provinces are comfortably exceeding SARS service standards (e.g., processing time for tax returns), it may be appropriate to tighten them further, and encourage yet more efficiency gains.

The data from the Tax Practitioner Survey should be compared directly with the data from the direct survey of SMME tax payers to combine the strengths of both surveys (as well as insights from the survey of informal firms) and use the combined data to test a number of hypotheses, including (but not limited to) the following:

- Firms that don’t use professional Tax Practitioners have lower compliance costs in cash (“out of pocket”) terms, but may face significantly higher costs in terms of the opportunity cost of staff time;

³ For information about service standards for tax in several OECD member countries see <http://www.oecd.org/dataoecd/43/7/37610131.pdf>

- Firms that don't use Tax Practitioners incur higher rates of SARS queries, penalties, and/or inspections;
- The relatively high variability in time/cost estimates across provinces for tax compliance and reports of SARS response times and service quality are relatively uncorrelated with firm size, legal form, or main activity, and thus are most likely due to result from differences in practices and/or efficiency across SARS provincial offices

It would be beneficial to carry out another survey after reforms are enacted and after firms have had at least one full tax year to experience the new situation. This could make it possible to compare "before" versus "after" survey data and to test another set of hypotheses (among others):

- SMEs face significantly lower compliance costs after reforms have been enacted (test by tax, by procedure, by province);
- SMEs face significantly lower rates of queries and inspections from SARS after the reforms;
- Tax Practitioners report significantly lower rates of SARS errors (which may not necessarily be attributable to the reforms, but perhaps from overall improvements in accuracy and efficiency due to more electronic filing)

If some procedural or administrative reforms (e.g., different taxpayer outreach strategies) are tested in some provinces and not others (and especially if they are differentially tested in, say, one of the larger urban provinces and not in the others) it may be possible to test the efficacy of such strategies by comparing the "treatment" provinces against the "control" provinces.

1. Introduction: The Survey and its Results

In many developing countries (both poor and middle-income), business owners complain that tax compliance costs (i.e. cost of preparing, handling and submitting required tax forms to the country's tax authorities and related interactions with tax authorities) add a serious burden to their operations and significantly affect bottom lines. In South Africa these complaints are compounded by anecdotal evidences that tax compliance costs also prevent a lot of small businesses from registering and joining the "formal" economy.

The National Treasury and the South African Revenue Service (SARS) therefore requested that the Foreign Investment Advisory Service (FIAS, a multi-donor facility of the World Bank Group) assist them with a set of baseline surveys of tax compliance costs for small and medium enterprises. The objective of the surveys was to document tax compliance costs for small businesses in South Africa, to identify the most onerous compliance burdens based on these costs as targets for reform and to serve as a baseline against which future progress can be measured.

FIAS therefore designed a set of three surveys:

- A survey of professional tax practitioners who provide tax consulting services for SMEs on a fee-for-service basis;
- A direct survey of SMEs registered with SARS; and
- A survey of informal firms about their perceptions of tax compliance.

The tax practitioner's survey was a large scale country-wide survey of professional tax practitioners whose main job is to help small and medium size businesses (as defined by South Africa Revenue Service (SARS)) comply with the tax requirements imposed by the state.

A report of the survey results, which was focused primarily on different turnover bands, was published by FIAS in September, 2007, entitled "Tax Compliance Burden for Small Businesses: A Survey of Tax Practitioners in South Africa".⁴ This report, based on the same data, focuses more on the differences between the nine provinces in South Africa. Such an analysis is expected to be particularly useful for SARS to understand provincial variation in compliance costs as well as differences in performance of provincial offices, as reported by professional tax practitioners acting on behalf of their SME clients.

This study was designed as a web-based list assisted survey. This survey was completed by members of two of the largest organizations to which tax practitioners (professional accountants and bookkeepers) who are registered with SARS belong., that is the South African Institute of Chartered Accountants (SAICA) and the South African Institute of Professional Accountants (SAIPA). The members of another smaller organization that has some tax practitioners among its members, the South African Institute of Certified Bookkeepers (SAICB), were also used as respondents to the survey. Allegedly, although definitive empirical evidence is not yet available, members of the two larger organizations submit about 2/3 of all business tax returns in the country. This survey also had the merit of being relatively low-cost, and therefore more likely to be repeated on a regular basis.

⁴ Available at: http://www.ifc.org/ifcext/fias.nsf/Content/FIAS_Resources_Country_Reports

For personal interview surveys (and to a lesser extent, mail and telephone surveys), additional attempts to reach members of the frame add significantly to the cost of the survey, especially beyond two or three calls where the completion rate falls rapidly.⁵ Web surveys do not have this cost constraint, because sending out an extra electronic reminder adds only marginally to the overall cost of the survey.

It is also important to keep in mind that the targeted population of the survey was rather unusual – the dominant majority of prospective respondents were highly educated, well-off accounting professionals – busy, but detail oriented, well-informed and highly responsible, but not necessarily responsive people.

This paper is organized in the following way. The first part briefly discusses the methodology used, followed by a brief description of the survey population and the achieved sample; the second part provides an analysis of the key survey results, with an emphasis on the variations between the nine provinces; the third part presents a brief overall discussion of the results, conclusions and an outline for potential next steps for the data analysis. We tried not to overburden the reader with too many tables, although it was not always possible, considering the descriptive nature of the paper. Further details about “objections/queries” perceptions about SARS’ quality of service and priorities for the reform agenda by Province are contained in Annex 1.

1.1 Selection of the mode for questionnaire delivery

An electronic Web-based survey was selected as the instrument for the questionnaire delivery for the following reasons:

- An option for a telephone survey was rejected at the outset due to the complexity of the questions, routings, length of the questionnaire and potential danger that in order to answer some of the questions respondents may need to consult with their records, thus they had to be reached during business hours or multiple calls would be needed for a full completion of the questionnaire;
- The cost of a face-to-face survey of this magnitude would be prohibitively expensive in South Africa where cost of highly trained labor is at least on par if not higher than in major developed countries;
- The time constraints – tax practitioners have a very narrow downtime “window”, thus conducting a country-wide Web-based survey was found most feasible as it allows for a shorter field period and provides respondents with more flexibility and convenience for responding;
- While internet penetration in South Africa is relatively low, the targeted population consists of highly qualified and educated professionals that are familiar with and have a reliable access to the internet;
- Although in the questionnaire design we tried to avoid particularly sensitive questions, the anonymity of respondents was seen as better assured when any personal interview contact would be eliminated;

⁵ Kish, Leslie. Survey Sampling. New York: John Wiley, 1965.

- Data coding and database construction steps were eliminated from the survey process, thus further reducing the time and cost of the survey, while improving accuracy of the results.

1.2 Questionnaire design and field-testing

The questionnaire was prepared by a team comprised of the World Bank survey and tax compliance costs experts, a South African tax expert/consultant and a South African internet expert/programmer. The draft questionnaire was reviewed for clarity and coverage, and tested for usability by South African and international tax experts representing local and international universities, SARS and National Treasury. The survey instrument allowed participants to make on-line comments for each question. Comments were then reviewed by the project team and necessary changes incorporated in a subsequent version of questionnaire.

A pilot study was then run from 15 September 2006 – 4 October 2006. A randomly selected sample of members was selected for each of the participating organizations. Altogether 1,250 tax practitioners were invited to participate in the pilot test: 250 from SAICB, 500 from SAICA and 500 from SAIPA. The smaller sample size for SAICB was chosen due to its overall smaller membership base than for the other two professional institutions.

Among 1,250 tax practitioners selected for the pilot, 1,129 had functioning email address and were working in South Africa. No attempt was made to update email addresses, tax practitioners who were not involved with South African clients were also eliminated from the sample. The overall response rate to the pilot, including partially completed questionnaires, was 11.9%.

Participants were not informed that they were part of the pilot study as all the invitation letters and incentives schemes were also tested on this sample. Pilot study duration, progress and outcome reports were compiled and reviewed in order to make the necessary changes required to the final questionnaire. The majority of the changes made after the pilot were in the time and cost scales – they were adjusted to ensure a more realistic outlook and avoid “bunching” of responses.

1.3 Preparations for the main survey and fieldwork arrangements

At the outset of the project, the FIAS team contacted the three main tax-practitioner organizations in South Africa: South African Institute of Chartered Accountants (SAICA), South African Institute of Professional Accountants (SAIPA), and South African Institute of Certified Bookkeepers (SAICB). The lists of their membership were obtained. These lists consisted of names, telephone numbers, and email addresses. A combined database of all the members of SAICA (20,279), SAIPA (5,294) and the SAICB (2,174) was compiled to a total 27,747 names and email addresses.

Due to the low marginal cost of adding a participant to a Web-survey and limited exogenous information that would allow designing a proper sampling methodology it was decided to send invitations to all tax practitioners on the list.

The pilot demonstrated that membership lists included a significant number of association members whose addresses were not functional and/or who were based overseas and did not work with clients in South Africa. A special list-cleaning exercise was undertaken and it was found that the SAICA membership list included the largest number of overseas members. Although, oversea-based members would be filtered out from the survey after either the first or second question, it was decided not to include them at all as they would not be providing any information

needed. These members were therefore excluded from the final population and only local members were invited to participate in the survey. As it was mentioned earlier, no attempt was made to find correct email addresses for non-reachable members.

The pool of potential respondents was further reduced by the “unsubscribe option” that was added after the pilot. A participant who passed the oversea test would be unsubscribed if at least one the following would be true: (i) being abroad – used for those participants who were not “weeded-out” at the initial stage; (ii) being of an incorrect audience – retired from practice, studying rather than practicing, etc.

The total number of tax practitioners on the initial membership lists who were eliminated due to one of the above reasons was 5,970, thus the invitations were sent to 21,777 potential respondents.

All potential respondents on the final list⁶ were sent an e-mail explaining the background and purpose of the study and requesting their participation. To increase the response rate a set of prizes (rather than incentives) was offered. Should the respondent complete the survey, he/she would be entered into a random draw to win one of the following in either computer or travel vouchers (no cash was offered):

- One first prize - R7,000;
- Two second prizes - R3,500; and
- Three third prizes - R1,500.

The survey invitation included a web-link to the survey web-site consisting of the questionnaire, explanations, and letters of support issued by the National Treasury/SARS, SAICA, SAIPA, and SAICB.

The first invitation to participate was sent to all members of each association remaining on the list (other than the pilot participants) on 1 November 2006. The invitation e-mail stated that the survey would close on 20 December 2007, but later on it was decided to leave it open until 5 January 2007 for those respondents that were not on leave over the Christmas period. Several e-mails and SMS reminders were sent out to all participants (with certain exceptions) that had not completed the survey.

Unfortunately, as of November 21, 2006 the SAICA management contacted the project team and requested them to stop sending reminders to its members. The reason given to the World Bank team by the SAICA was complaints from certain members who requested to stop receiving the reminders. In terms of response rates for the overall survey, this request from SAICA management was almost equivalent to stopping the survey of SAICA members - less than 10% of all SAICA responses were collected after reminders were discontinued, as compared to over 40% for SAIPA responses. For the latter organization we were allowed to send reminders until the end of the survey field period.

In order to mitigate potential complaints from members of other associations it was decided to add an “unsubscribe” option to all further reminders, i.e. should the participant not be interested or willing to complete the survey questionnaire (s)he could inform the World Bank team of this fact via e-mail and would be unsubscribed from the survey. This option was not provided earlier,

⁶ Note that not all members of the target bodies are tax practitioners; many are accountants in other fields of specialization.

as this would have been an easy way out for some participants. Surprisingly, only about 1 percent of remaining participants utilized this option.

1.4 Structure of the questionnaire, confidentiality and other issues

The questionnaire was designed to have a modular structure. Each fully eligible respondent was expected to complete two generic modules – a profile of the respondent and a profile of his/her clients. Based on responses to the client profile module, a respondent was randomly assigned a “focus” client. This was done in order to collect specific tax compliance burden (cost/time) information for SMEs (defined by turnover, legal form, and main economic activity). After a “focus” client was assigned, the respondent was asked to complete one randomly assigned tax module, either: (a) Corporate Income Tax, (b) Provisional Tax, (c) VAT, or (d) PAYE. Respondents were given an option to complete one or more additional tax module(s) if they would be willing to do so after completion of the assigned tax module. After the tax module was completed, a respondent was asked to complete the final module asking more generic questions about the quality of SARS services and his/her views on a reform agenda for SME taxation.

Some of respondents were not taken though all modules, e.g. if a tax practitioner was not working with clients other than his/her primary employer, or if all his/her clients had an annual turnover over R14 million, then built-in filters would take them to either the additional information module or to the end of the survey questionnaire.

Each participant was expected to read the invitation e-mail/letter, the letters of support and all other information provided on the website and then by accessing the survey, the individual provided his/her implicit consent to provide information requested in the survey.

The confidentiality and/or anonymity of the respondents were assured as the respondents were not requested to provide their names or any other information that could be used to identify them in person in the questionnaire, the research report or any other publications based on the study. Each respondent was identified by a respondent number only. The completed questionnaires and any other documents that are used to identify respondents were only handled by the World Bank team and consultants involved in the study.

The electronic system used to handle the survey questionnaire had an in-built security feature preventing anyone outside the target group from participating in the survey. This system also prevented the same respondent from answering the survey more than once.

Should any of the respondents experience any difficulties, they were provided with a support e-mail address, the e-mail address of one of the World Bank team members and a support hotline that they could call.

The survey was designed to avoid the coverage error, so common to the surveys of this nature⁷ – we used an updated list of the association members, thus we covered the entire population of interest. The dominant majority of inactive email addresses were attributed to inactive members (i.e. those who would have been “defined out” anyway).

Of course numerous other potential sources of errors and biases common to Web-based surveys were also expected to appear. At the design stage we made an effort to reduce non-response error by making the topic interesting to the targeted audience, although we have only anecdotal

⁷ Couper, Mick P. “Web surveys: A review of issues and approaches”. *Public Opinion Quarterly*; Winter 2000; 64, 4; pg. 464.

evidence whether our achieved sample is a good reflection of the entire targeted population. Some comforting evidence arises from the fact that 2/3 of respondents agreed to become a part of the “expert group” and participate in the future surveys. The distribution of these “volunteers” is not significantly different from the distribution of the whole sample, except, perhaps in terms of their years of experience (volunteers tend to be relatively more concentrated in the middle of the experience interval).

The response rate (whichever way it would be calculated) was below averages of 25-30% reported for this type of surveys in *Cook, Heath and Thomson, 2000*.⁸ And while overall response rate of 18% seem to be significant for the analytical purposes, the research team was concerned about potential biases and their effect on the overall conclusions and policy recommendations these results will be eventually used for.

There were two main concern – (i) difference in responses given by respondents from different organizations; (ii) difference in responses provided by early versus later respondents. If either or both differences would be found, then extrapolation of the overall results to the “country universe” may be rather uncertain. A special toolkit would be needed for the result extrapolation and to remedy any potential response bias. Developing and proposing such procedures is beyond the scope of this paper.

1.5 Main characteristics of the achieved sample

1.5.1 Response rate issues

As mentioned above, the invitation to participate was issued to the entire “eligible” population of each of the above professional associations (refer to SAICA exception above regarding reminders). Altogether 3,985 tax practitioners accessed the questionnaire (see Table A.1 for details), i.e. 18.2% “hit rate”.

Table A.1: Share of respondents by province and level of questionnaire completion

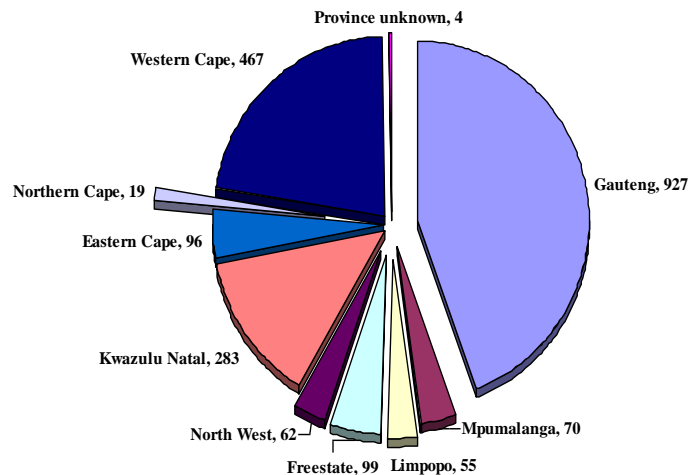
Province	Unit	Respondent type			Total
		Non practicing respondents	Respondents not dealing with target population	Respondents answering to at least one tax module	
Gauteng	%	.0	8.6	91.4	100.0
Mpumalanga	%	.0	2.8	97.2	100.0
Limpopo	%	.0	5.2	94.8	100.0
Free state	%	.0	10.0	90.0	100.0
North West	%	.0	10.1	89.9	100.0
Kwazulu Natal	%	.0	9.6	90.4	100.0
Eastern Cape	%	.0	9.4	90.6	100.0
Northern Cape	%	.0	5.0	95.0	100.0
Western Cape	%	.0	6.2	93.8	100.0
Province unknown	%	91.9	7.9	.2	100.0
Respondent average		39.8	8.0	52.2	100.0
Province average		--	7.5	83.3	100.0
Number of observations	N	1585	318	2082	3985

⁸ Cook, Colleen, Heath, F., Thompson, Russel L., “A Meta-Analysis of Response Rates in Web- or Internet-Based Surveys”, *Educational and Psychological Measurement*, Vol. 60, No. 6, 821-836 (2000)

Some of the respondents who accessed the survey questionnaire were not working with clients, not working with taxes and/or retired, i.e. were not a part of the target population. The number of these respondents was 1,585. Thus an effective response rate was 11.9% or 2,400 respondents from the population of 20,192 eligible respondents.⁹ Some of the respondents were not working with SME clients (318 respondents). These respondents were not asked to complete a tax module, but requested to complete a few perception questions about quality of SARS services and reform agenda. The remaining respondents (2,082) were asked to complete at least one randomly selected tax module (thus response rate to tax modules was 10.4%). Some of the respondents volunteered to complete more than one tax module giving us a total of 2,530 fully or partially completed tax modules for analysis. These response rates appear to be more or less in line with the response rates received on web surveys internationally.¹⁰

South African provinces differ widely in terms of size and level of economic development, thus the number of respondents per province was expected to differ accordingly. Chart A.1 shows the number of respondents who completed at least one tax module per province. As expected, the highest number of respondents had their businesses located in one of the three most eco-nomically developed provinces:

Chart A.1: Number of respondents who answered to at least one tax module



Gauteng, Kwazulu Natal and Western Cape. These account for 45, 14, and 22 percent of respondents, respectively. The lowest number of respondents came from Northern Cape province (1 percent of total). The results for this province are often differing substantially from the country averages and results for other provinces. Findings for Northern Cape province have to be interpreted with caution - due to the low number of responses, it is not necessarily clear what drives the difference – is it regional specific or lack of representativeness in the sample. The latter suggestion is also true for other smaller provinces where response rates to specific questions were relatively low (e.g. North West, Limpopo and Mpumalanga provinces).

1.5.2 Characteristics of respondents

Respondents’ businesses also differ substantially between provinces in terms of the number of professionals employed there (Question 4). The provincial averages range from 3.18 in Mpumalanga to 6.34 in the Limpopo province. More economically developed provinces have higher shares in “one-man shops”, e.g. in Gauteng 50% of respondents reported that they work in

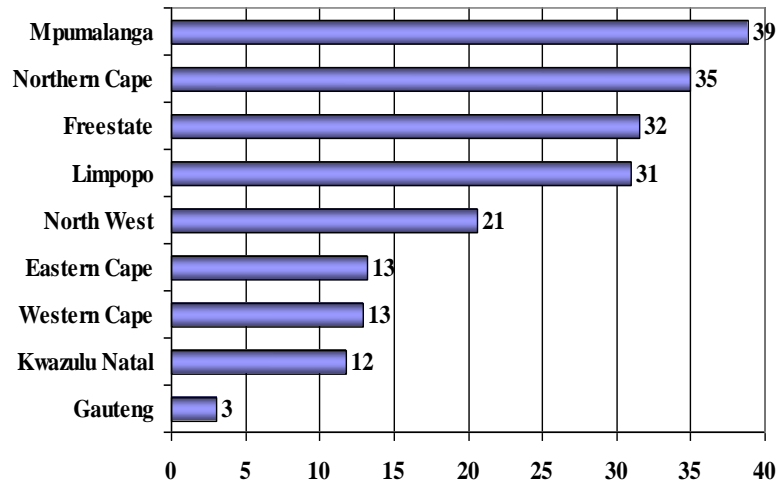
⁹ Presumably, a large proportion of the non-respondents were not tax practitioners, either – they had other specializations, and that may have been why they were not interested to open the survey.

¹⁰ Hamilton, Michael Braun “Online survey response rates and times – Background and Guidance for Industry” at http://www.supersurvey.com/papers/supersurvey_white_paper_response_rates.htm; meta analysis of 199 surveys conducted using SuperSurvey™ software suggests an average response rate of 13.35%

a business with only one professional employee; this share was 49.1% in the Western Cape and 46.3% in Kwazulu Natal.

Most of the respondents are located in urban areas (Question 7) – overall, 89 percent of respondents reported their businesses to be located in urban areas. Chart A.2 shows that provincial differences in the urban/rural distributions are very pronounced, but not necessarily surprising: the lowest percentages of rural businesses are reported in the three most urbanized provinces.

Chart A.2: Share of respondents located in rural areas, %



The respondents are very homogeneous in terms of their professional experience (Question 8) – over 50% of respondents in each province have at least 10 years of professional experience. An average experience for all respondents is about 13 years.

1.5.3 Characteristics of “focus” clients

The South African Revenue Service was particularly interested to learn about the tax compliance burden on small and medium enterprises. According to the most general SARS definition of a “Small Business Corporation”, these are businesses with a turnover not exceeding R14 million. For the purposes of the survey we divided SMEs into four turnover bands (see Table A.2 for details). As it was mentioned earlier each respondent was randomly assigned a “focus” client in one of these turnover bands.

Table A.2: Distribution of “focus” clients by turnover (percent)

	Percentage of respondents				Total (N)
	R1 - R300,000	R301,000 - R1,000,000	R1,000,001 - R,6,000,000	R6,000,001 - R14, 000,000	
Gauteng	28.1	30.9	24.0	17.0	967
Mpumalanga	33.3	20.8	26.4	19.4	72
Limpopo	36.8	21.1	29.8	12.3	57
Freestate	27.9	33.7	18.3	20.2	104
North West	27.7	27.7	26.2	18.5	65
Kwazulu Natal	30.5	27.5	26.8	15.2	302
Eastern Cape	34.0	28.0	24.0	14.0	100
Northern Cape	50.0	15.0	20.0	15.0	20
Western Cape	29.3	28.5	28.7	13.6	485
Mean % by respondents	29.6	29.1	25.4	16.0	2172
Mean % by provinces	33.1	25.9	24.9	16.1	9

Table A.2 shows the distribution of responses by the size of respondents’ “focus” clients. This distribution was driven by respondents’ answer to the Question 11 in the questionnaire (see Annex 2 for the full questionnaire).

The second step of the “focus” client selection was through random assignment of a specific organizational form. In question 12 respondents were requested to state which of the five main common legal organizational forms their clients trade under and then one of these forms was randomly assigned to be their “focus” client’s legal organizational form. Table A.3 shows the distribution of responses by the legal form of the respondents’ “focus” clients. It is worth noticing that close corporations are the most commonly used legal form among tax practitioners’ clients in all provinces (except Northern Cape where an equal percentage of respondents (30%) answered the questionnaire in respect of sole proprietors, close corporations, and partnerships). The most developed provinces had the highest share of companies among their focus clients, while for lesser developed provinces the share of sole proprietors was relatively higher.

Table A.3: Legal organizational form of “focus” client’s business (percent)

	Percentage of respondents						Total (N)
	Individuals/sole proprietors	Companies	Close corporations	Trusts	Partnerships	Other	
Gauteng	24.4	23.7	39.0	6.6	3.4	2.9	967
Mpumalanga	29.2	8.3	40.3	9.7	5.6	6.9	72
Limpopo	35.1	10.5	36.8	8.8	3.5	5.3	57
Freestate	26.0	11.5	37.5	12.5	7.7	4.8	104
North West	27.3	13.6	47.0	1.5	9.1	1.5	66
Kwazulu Natal	23.6	15.3	39.5	9.6	8.0	4.0	301
Eastern Cape	28.7	7.9	40.6	13.9	4.0	5.0	101
Northern Cape	30.0	5.0	30.0	.0	30.0	5.0	20
Western Cape	23.1	20.5	39.3	7.0	7.4	2.7	484
Mean % by respondents	24.9	19.2	39.3	7.7	5.7	3.4	2172
Mean % by provinces	27.5	12.9	38.9	7.7	8.7	4.2	9

The third step in the “focus” client selection process was through the random assignment of main economic activity from a list offered to respondents in Question 13. The resulting distribution of

responses is shown in Table A.4 below. The provincial distribution of “focus” clients closely follows provincial specialization and sectoral impact, at least for the main areas of economic activity such as agriculture, manufacturing, trade, finance/business services, and personal services.

Table A.4: Main economic activity of “focus” client businesses (percent)

	Percentage of respondents								
	Agriculture, forestry & fishing	Manufacturing	Construction	Wholesale and retail trade, hotels and restaurants	Transport, storage and communication	Finance, real estate and business services	Personal services	Other	Total (N)
Gauteng	3.6	9.6	9.3	20.1	5.9	25.4	14.8	11.3	960
Mpumalanga	20.8	5.6	2.8	22.2	6.9	15.3	11.1	15.3	72
Limpopo	10.5	5.3	14.0	21.1	12.3	8.8	12.3	15.8	57
Freestate	21.4	9.7	11.7	22.3	11.7	11.7	3.9	7.8	103
North West	13.8	12.3	9.2	16.9	9.2	13.8	12.3	12.3	65
Kwazulu Natal	6.8	14.5	10.5	19.3	11.8	18.2	10.1	8.8	296
Eastern Cape	9.0	8.0	7.0	29.0	4.0	20.0	16.0	7.0	100
Northern Cape	35.0	5.0	15.0	20.0	.0	.0	10.0	15.0	20
Western Cape	10.4	10.6	9.5	19.7	5.0	22.4	12.9	9.5	482
Mean % by respondents	8.0	10.2	9.5	20.4	7.0	21.5	12.9	10.5	2155
Mean % by provinces	14.6	8.9	9.9	21.2	7.4	15.1	11.5	11.4	9

At the final step of selection, respondents were assigned the tax module that they would be required to complete. This was done based on information collected through Question 14b. The resulting distribution of focus clients is shown in Table A.5. Please notice that the sum of percentages may be above one hundred – some respondents completed more than one tax module. The most “popular” tax was income tax followed by provisional tax, VAT, and employees’ tax.

Table A.5: Percentage of respondents who completed specific tax module

	Type of respondent				Total (N)
	Income tax respondents	Provisional tax respondents	VAT respondents	Employees' tax respondents	
Gauteng	41.2	34.2	26.1	19.8	927
Mpumalanga	32.9	30.0	28.6	20.0	70
Limpopo	49.1	40.0	27.3	12.7	55
Freestate	33.3	29.3	30.3	17.2	99
North West	37.1	27.4	33.9	19.4	62
Kwazulu Natal	39.9	39.2	25.8	20.5	283
Eastern Cape	36.5	40.6	19.8	16.7	96
Northern Cape	42.1	63.2	42.1	26.3	19
Western Cape	44.1	37.5	23.3	17.6	467
Province unknown	75.0	25.0	25.0	.0	4
Mean % by respondents	41.0	35.7	25.8	19.0	2082
Mean % by provinces	39.6	37.9	28.6	18.9	9

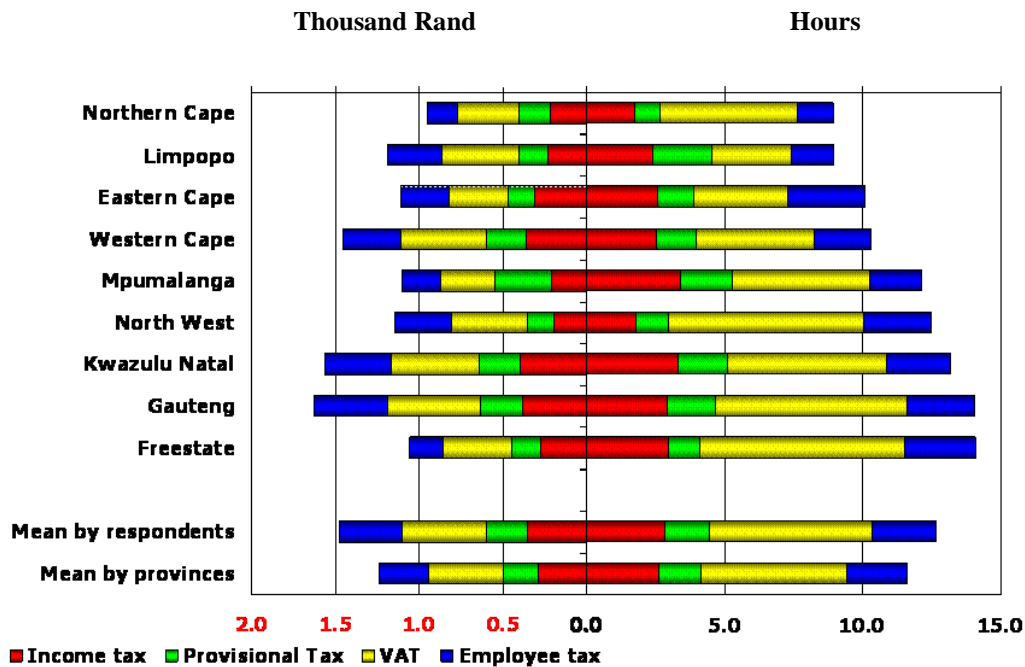
2. Survey Results by Province

This section of the paper is focused on a provincial analysis of the survey data, highlighting differences between provinces in key areas of tax compliance costs. While the key survey data showed comparatively little variation by turnover band, by legal form, and by main activity, there appeared to be a noticeably higher range of variation on many topics by province, which makes analysis along these lines potentially useful and interesting.

2.1 Registration for taxes

The first step in tax compliance for new companies is registration for taxes. Essentially, all enterprises must register for income tax; sole proprietors and the members of partnerships must register separately for provisional tax (while companies, and CCs, are automatically registered for provisional tax along with income tax). Enterprises with a turnover over R300,000 are required to register for VAT and firms with employees must normally register for Employees' tax. Chart 2.1 below shows the time required for registration for each tax for each province, as well as the fees charged by tax practitioners for assistance with this procedure. Overall, time requirements for registration are the highest for the Freestate Province and Gauteng, and lowest for Limpopo and the Northern Cape province. Highest costs, as expected, are in the heavily urban provinces of Gauteng, Kwazulu Natal, and the Western Cape, where the rates charged by tax practitioners are relatively higher than in more rural provinces.

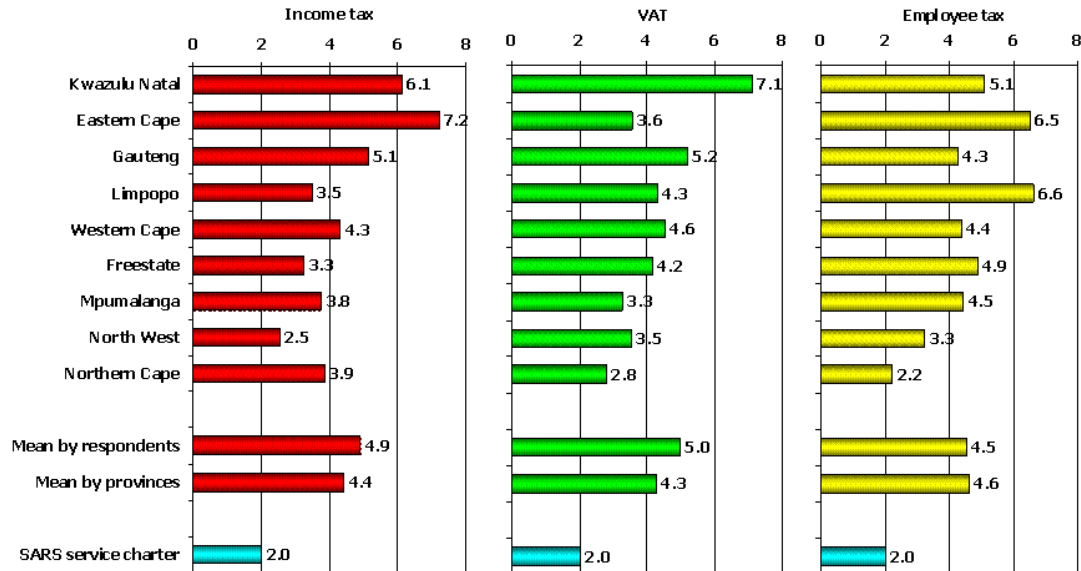
Chart 2.1 Registration for taxes: tax practitioners time and cost to clients



Of more direct interest to SARS may be the time it takes the various provincial offices to issue a tax registration number, compared to the SARS service charter standard of ten working days (i.e., usually about two weeks - See Chart 2.2). On the basis of the tax practitioner's responses to the survey, none of the provinces yet meet the SARS goals, although the Northern Cape Province is close for employees' tax (an average of 2.2 weeks) and VAT (2.8 weeks). The North West Province performs best for Income tax, at 2.5 weeks.

At the other end of the scale, Kwazulu Natal takes the longest time, at 7.1 weeks, to issue a tax registration number for VAT. The Eastern Cape takes the longest for Income tax, at 7.2 weeks, and Limpopo Province for Employees’ tax (6.6 weeks).

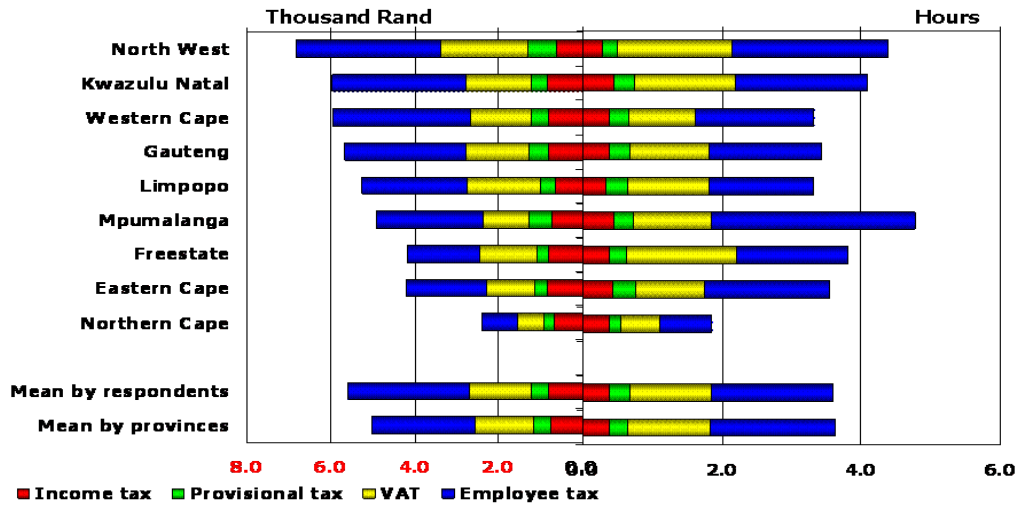
Chart 2.2 Time it takes SARS to issue a tax registration number (weeks)



2.2 Tax Returns

Tax returns represent the largest single category of tax compliance costs for most business taxpayers and are therefore of considerable interest to those who want to reduce compliance burdens for SMEs. While it is no surprise that tax practitioners in urban areas charge higher fees, on average, for their time than those in rural provinces, it is interesting to take note of the variation in the time requirements across provinces (see Chart 2.3, below). According to the survey results, tax practitioners in Mpumalanga take the longest time (especially for employees’ taxes) while those in the Northern Cape appear to take the shortest time. As these are both rural provinces, it may be interesting to consider why there should be such a marked difference. One possibility could be due to the nature of the taxpayers activities in these provinces – Mpumalanga has forestry, farming and agriculture, and tourism where as the Northern Cape is mainly farming (but it may also be due to the relatively small sample size in both provinces).

Chart 2.3 Tax returns: annual tax practitioners time and cost to clients

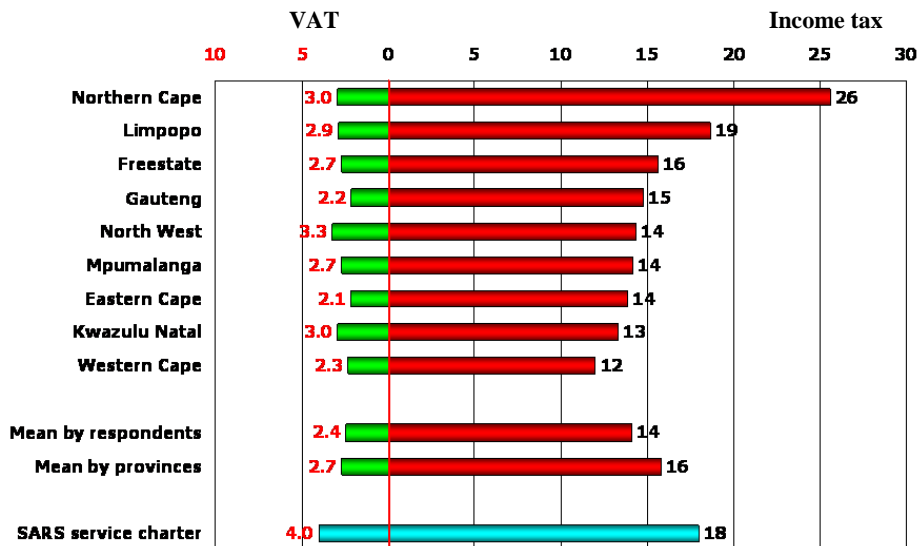


Estimated for 2 PT submissions, 3 VAT submissions and 12 ET submissions per year

Again, the more interesting matter for SARS may be to gage progress on the time required to process tax returns, by province, compared with the SARS service charter. On average for all of South Africa, SARS performs better than its service standards (90 working dates for income tax – about 18 weeks; and 20 working days for VAT), but the survey provides evidence that some provinces may be lagging (see Chart 2.4). Both the Northern Cape and Limpopo provinces are taking more time to process income tax returns than specified in the Service Charter, with the Northern Cape taking an average of 26 weeks and Limpopo an average of 19 weeks.

Over time, SARS may strive to tighten its Service Charter standards. Both the Western Cape and Kwazulu Natal process income tax return in 13 weeks or less. For VAT, the Eastern Cape and Gauteng process VAT returns within 2.2 weeks on average.

Chart 2.4 Time taken by SARS to process tax returns (weeks)

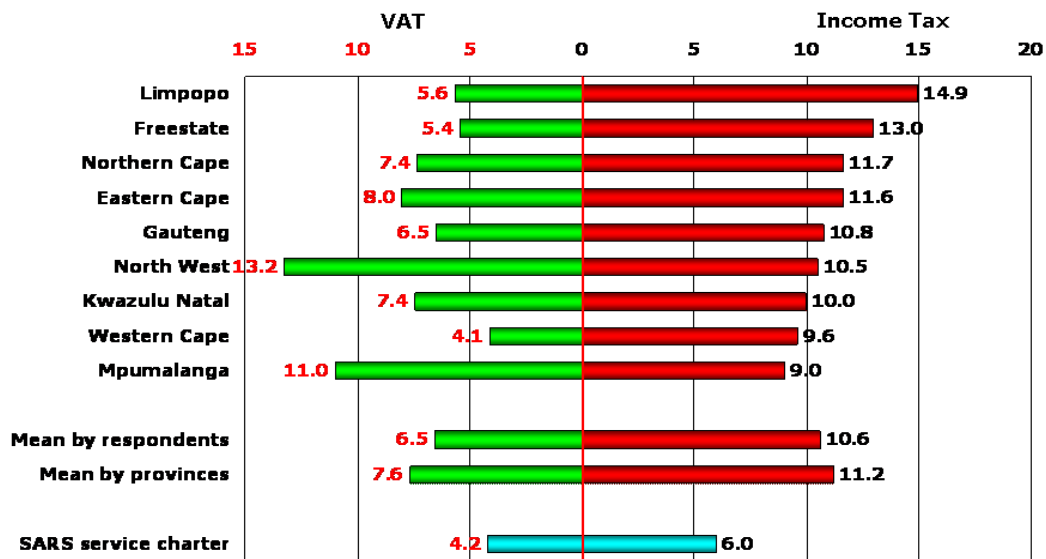


2.3 Tax Refunds

Tax refunds often represent a substantial sum of money owed to a firm, and delays in such refunds thus carry a significant cost to the recipients. The SARS service charter specifies 30 working days (about six weeks) for processing of an income tax refund and 21 days for VAT refunds. In this area, survey respondents in most regions indicate it is taking longer to receive refunds than specified in the Service charter (see chart 2.5), although the Western Cape does manage to process VAT refunds in 4.1 weeks. The best performing province for income tax refunds is Mpumalanga, which take an average of 9 weeks.

At the other end of the scale, the worst performing regions in the survey are the North West Province, which takes 13.2 weeks to process a VAT refund and the Limpopo Province, which takes almost 15 weeks to process an income tax refund.

Chart 2.5 Time it takes to receive a tax refund on a client’s bank account (weeks)

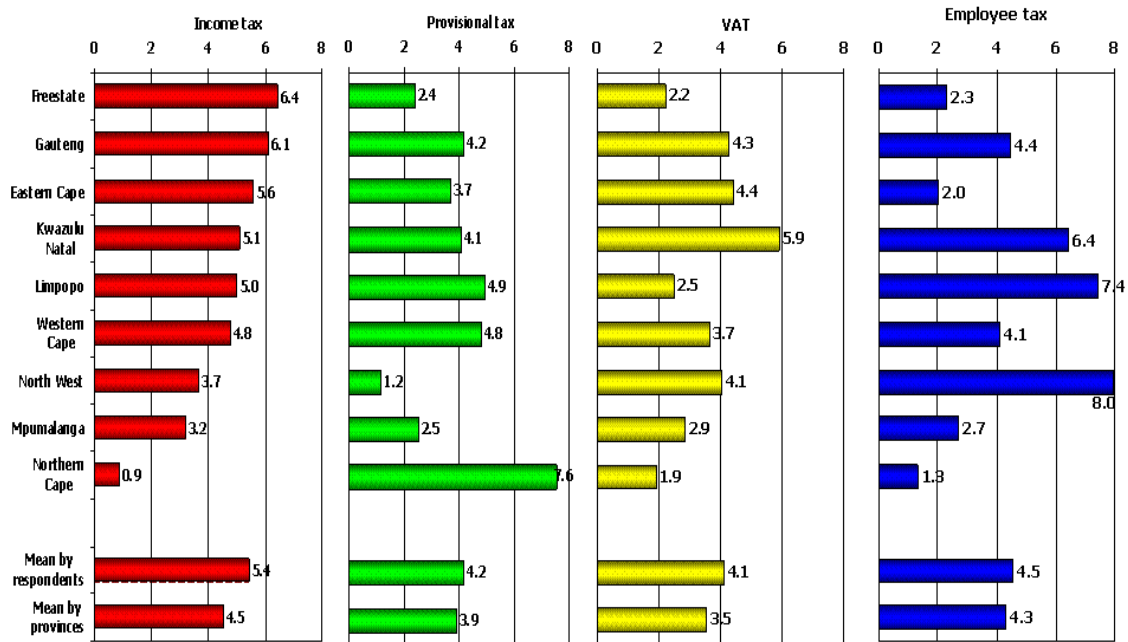


2.4 Penalties and Interest

Chart 2.6 below shows the percentage of clients paying penalties or interest, by tax and by province. On average, 5.4 percent of the clients of tax practitioners are charged with penalties or interest for income tax, but the range is considerable – from a high of 6.4% in the Freestate Province to a low of less than 1% in Northern Cape.

For Provisional tax, the range is even larger, with a high of 7.6 percent in the Northern Cape Province to a low of 1.2% in the North West Province. For VAT, the highest is almost 6% in Kwazulu Natal to a low of 1.9 % in the Northern Cape. For Employees’ tax, the range is from a high of 8% in the North West province to a low of 1.3% in the Northern Cape. It is interesting to note that the Northern Cape is at an extreme high for provisional tax but an extreme low for Income tax, VAT and Employees’ tax (which might be due to the small number of respondents).

Chart 2.6 Percentage of clients paying penalties or interest

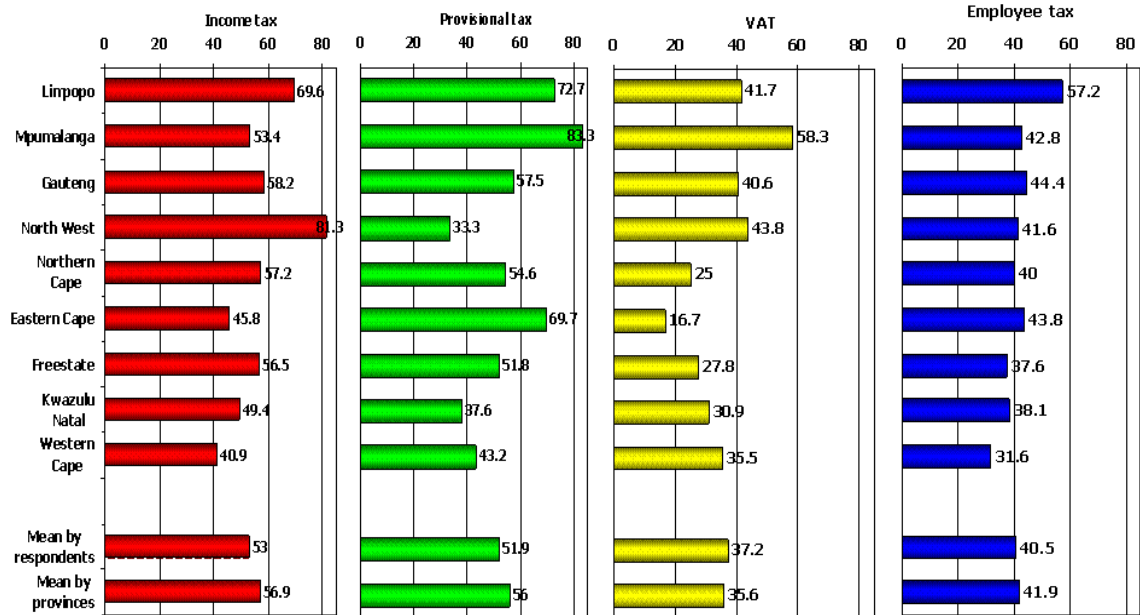


From the point of view of professional tax practitioners, a certain proportion of penalties are assessed as a result of errors on the part of SARS, which can be a difficult and costly problem for a small business taxpayer to resolve. The reported problem of SARS error varies both by the tax and by the province (See chart 2.7). While VAT seems less prone to this problem, with only about 37 percent of respondents citing that it happens “often” or “very often”, the corresponding figures are over 50% for Income Tax and Provisional Tax.

For income tax, the range of respondents stating that penalties are paid as a result of SARS error “often” or “very often” is at its lowest in the Western Cape Province, which is also the best province for Employees’ tax. For Provisional tax, the best is the North West province and for VAT it is the Eastern Cape.

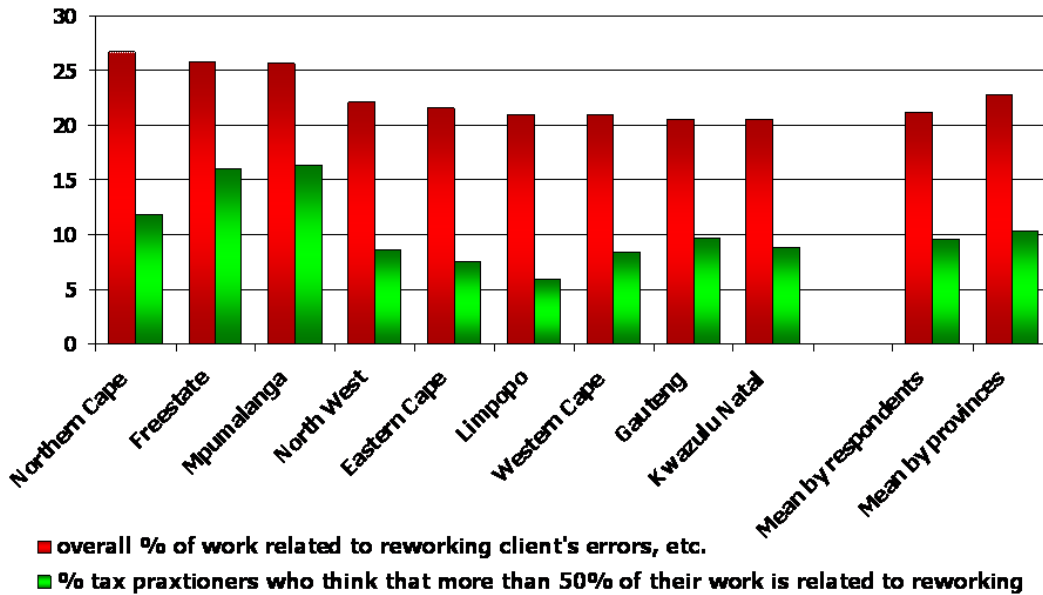
At the opposite end, the worst performances as reported by tax practitioners is the North West province for income tax, Mpumalanga for provisional tax and VAT, and the Limpopo province for Employees’ tax.

Chart 2.7 Penalties paid as a result of SARS error? Share of respondents saying it happens “often” or “very often”



By comparison, tax practitioners also find fault with their own clients. Chart 2.8 shows the percentage of tax practitioners’ work that relates to reworking poor submissions by their own clients. On average, this is over 20%, with the worst averages reported in the rural provinces of the Northern Cape, FreeState, and Mpumalanga, while the best averages are reported in the more heavily urban provinces of the Western Cape, Gauteng, and Kwazulu Natal.

Chart 2.8 Percentage of tax practitioners’ work related to reworking poor submissions by clients

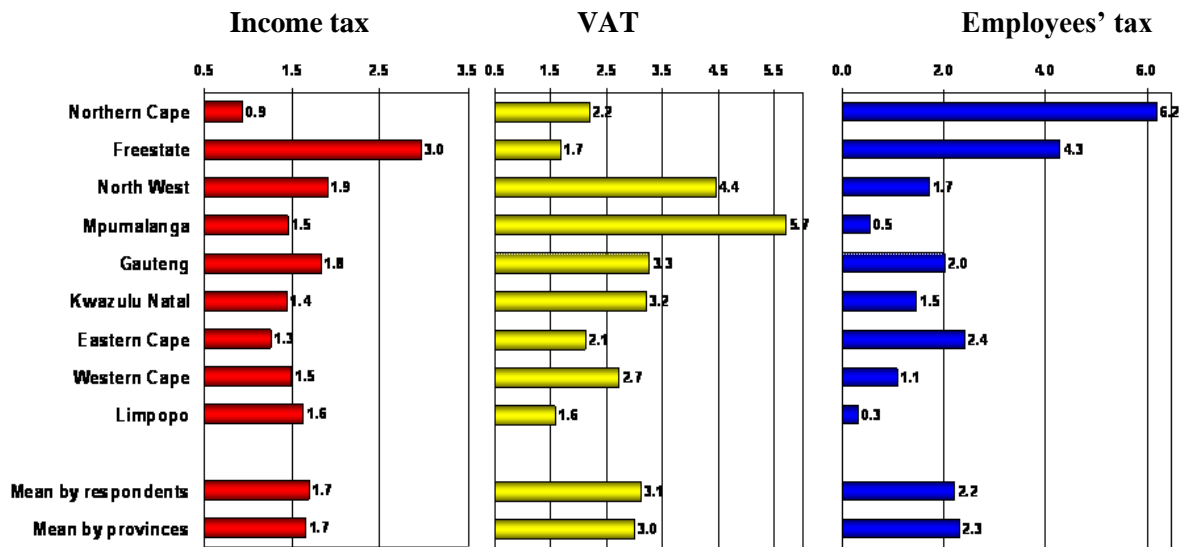


One question worth examining might be whether the incidence of SARS penalties and interest are relatively more highly correlated with the reported frequency of “SARS errors” or with “poor submissions by clients.” While a rigorous analysis has not yet been undertaken, a preliminary comparison suggests that provinces with a relatively high proportion of work related to reworking client’s errors are also among those with a high incidence of clients paying penalties or interest (e.g., Northern Cape for Provisional Tax, Freestate for Income Tax), while there appears to be less correlation between reported SARS errors and the percentage of clients paying penalties and interest (with the possible exception of Employee tax in Limpopo Province).

2.5 Audits and Inspections

There is also a wide range of survey responses regarding the share of businesses subjected to audits/inspection from SARS. Chart 2.9 below shows the incidence of such occurrences by tax and by province. The average for income tax is 1.7 percent, but the range is from 0.9 in the Northern Cape Province to 3% in the Freestate Province. For VAT, the average is just over 3%, while the range is from a low of 1.6% in the Limpopo Province to a high of 5.7% in the Mpumalanga Province. For employees’ tax, the range is from a low of 0.3% in the Limpopo Province to a high of 6.2% in Northern Cape Province.

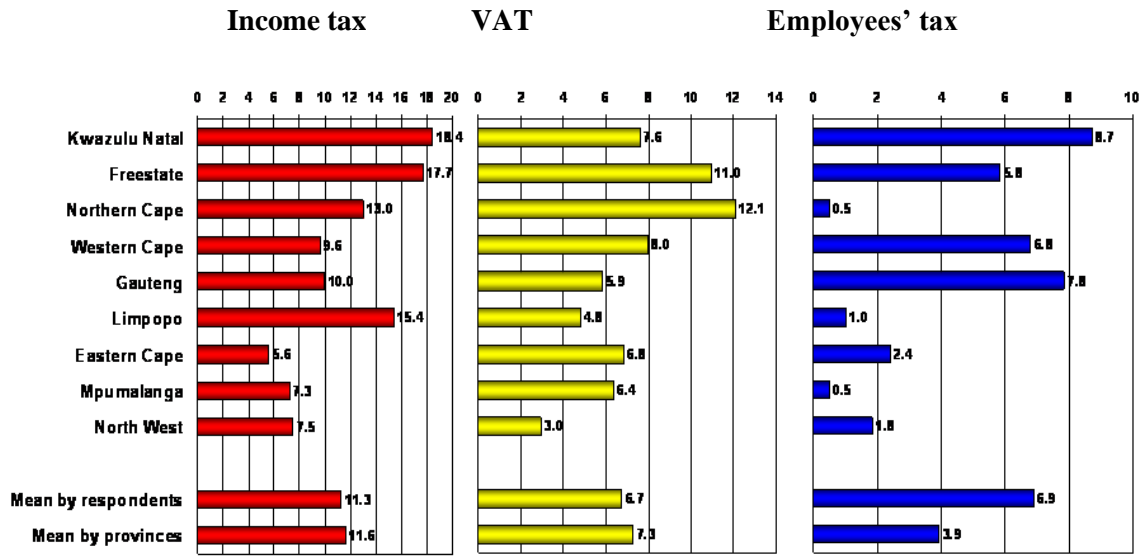
Chart 2.9 Share of businesses subjected to audits / inspections on income tax affairs



The duration of inspections also varies widely (See chart 2.10), especially for employees’ tax (although, given the small number of respondents on this question, the figures should be treated with caution). While the average is just under 7 hours, the range is from 0.5 hours in the Northern Cape and Mpumalanga to an average of 8.7 hours in Kwazulu Natal. The other urban provinces, the Western Cape and Gauteng, are also relatively high, probably because urban areas are where SMEs are most likely to have a relatively large work-force.

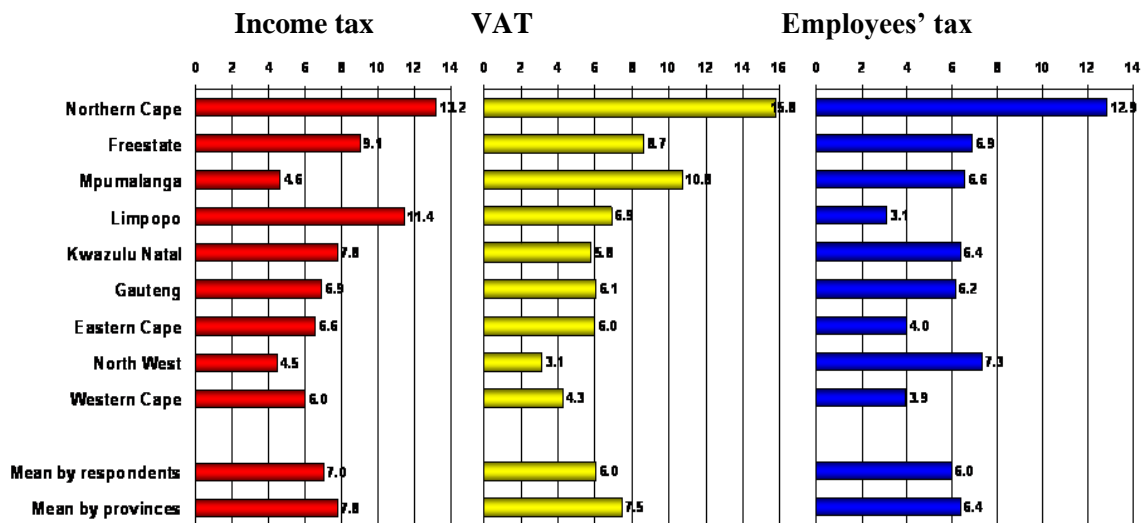
The variation is less striking for income tax and VAT. For income tax, the low end of the range is represented by the Eastern Cape, at 5.6 hours, and the high end is held by Kwazulu Natal, at 18.4 hours. For VAT, the shortest average duration of inspections is 3 hours while in Northern Cape it is an average of 12 hours.

Chart 2.10 Duration of various inspections (hours)



There is also considerable variation across provinces in SARS response times related to the various tax inspections (see chart 2.11). For income tax, it ranges from a low of 4.5 weeks in the North West Province to a high of 13.2 weeks in the Northern Cape. For VAT, it ranges from a low of 3.1 weeks in the North West Province to a high of 15.8 weeks in the Northern Cape. The pattern is a bit different for Employees' tax, with a low of 3.1 weeks in the Limpopo province to a high of 12.9 weeks in the Northern Cape. In all three cases, Northern Cape Province is the slowest.

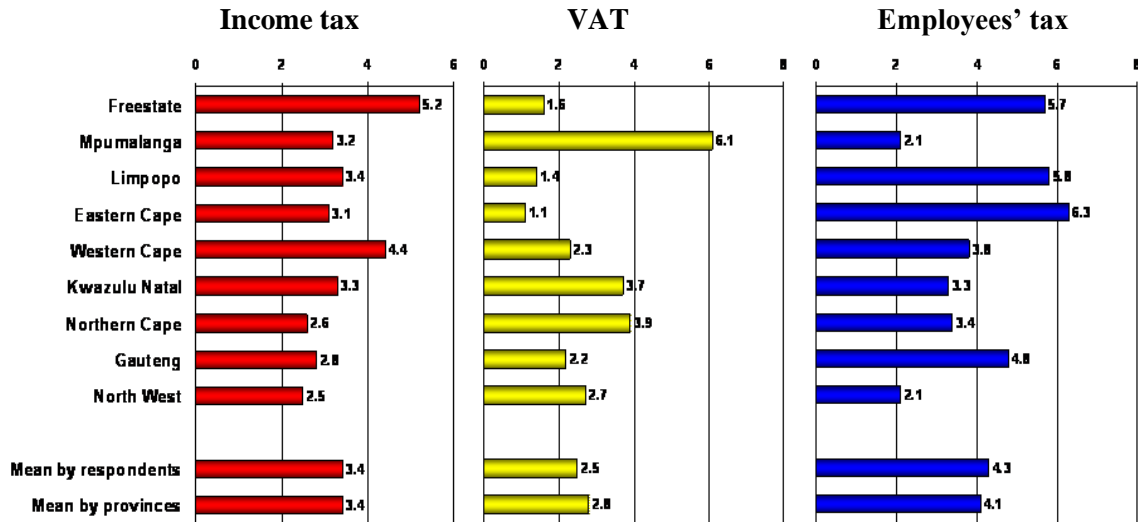
Chart 2.11 SARS response time related to various inspections (weeks)



There is also significant variation in the percent of businesses receiving queries from SARS (see Chart 2.12). The variation is relatively minor in the case of Income tax, ranging from a low of 2.5 percent of businesses receiving such queries in the North West Province up to 5.2 % in the FreeState. For VAT, the range is wider, from 1.1% of businesses in the Eastern Cape Province to 6.1 % of businesses in Mpumalanga. For Employees' tax, the rate is also rather wide, from 2.1%

of businesses in Mpumalanga and the North West Provinces to a high of 6.3% in the Eastern Cape.

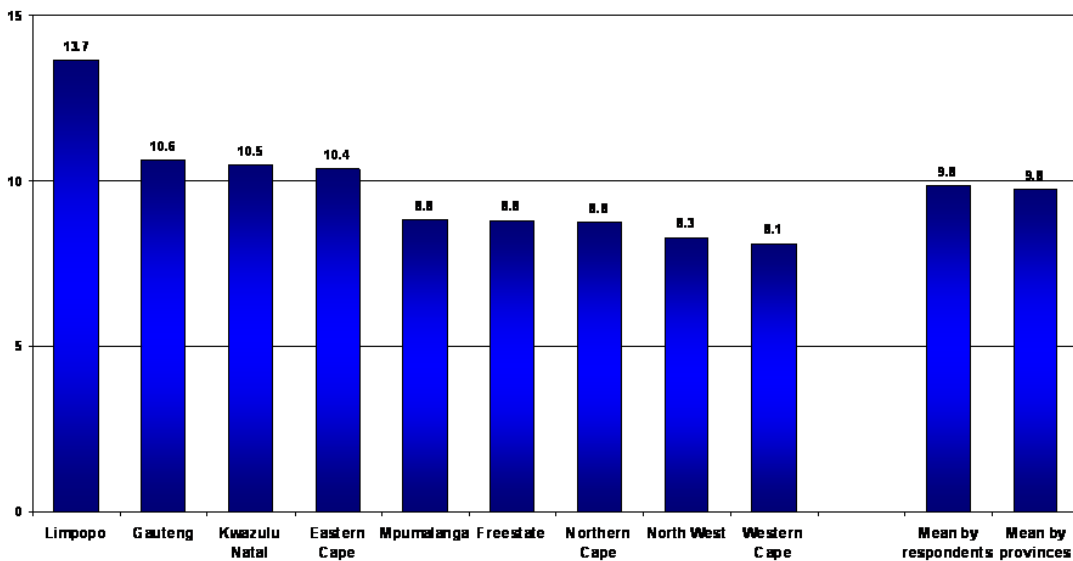
Chart 2.12 Share of businesses receiving written queries from SARS



2.6 Other Time Variables

Two other variables related to SARS timeliness were captured by the survey. The first is the time it takes SARS to update its records after notification of taxpayer's address change (Chart 2.13). The average for all respondents was just under 10 weeks. The best performing province was the Western Cape (just slightly over 8 weeks) followed by the North West province while the longest average time was recorded in the Limpopo province. The service charter standard is 21 working days (just over four weeks).

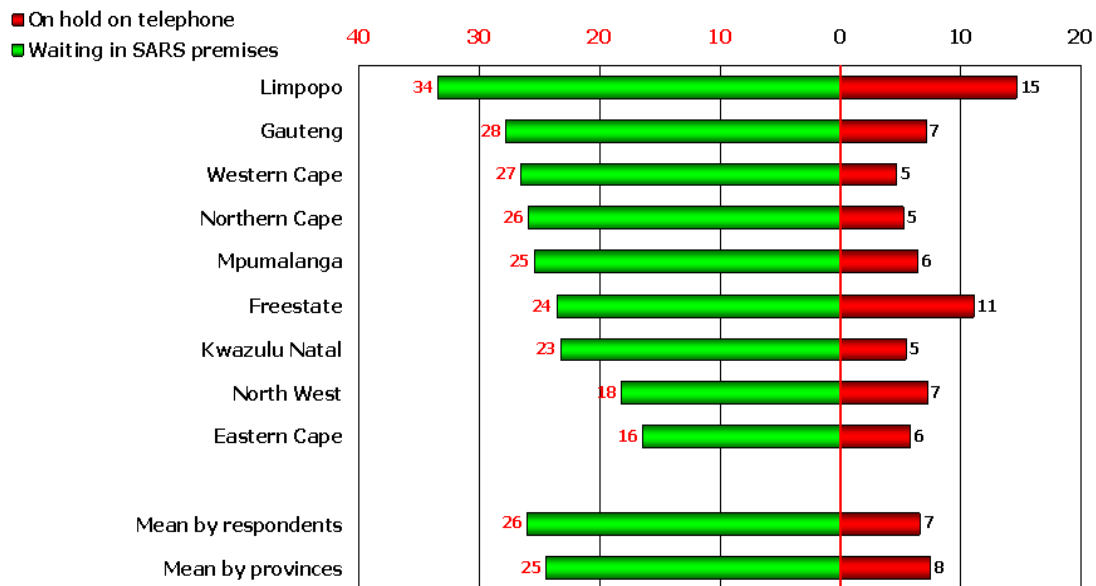
Chart 2.13 Time it takes SARS to update its records after notification of taxpayer's address change (weeks)



Waiting times for business clients to be attended to by SARS staff by phone or at SARS offices also varies considerably. For telephonic assistance, the SARS service standard is for calls to be answered within 20 seconds (1/3 of a minute). According to SARS data, about 70% of calls in the financial year ending 31 March, 2007 were answered within 20 seconds. The survey data are at variance with this. One possible explanation is that the phone might be answered promptly, but it may take more time before the call is directed to a SARS staff person who is in position to deal substantively with the caller. According to the survey data, the national average time “on hold” with SARS is about seven minutes, ranging from averages of about 5 minutes in the Western Cape, Northern Cape, and Kwazulu Natal Provinces to a high of 15 minutes in the Limpopo province (See Chart 2.14).

Waiting at SARS (without having made a prior appointment), the SARS service standard is 15 minutes. The Eastern Cape Province is closest to meeting the standard, according to the survey data, at 16 minutes on average. In the Limpopo province, the wait is over a half hour on average.

Chart 2.14 Waiting time before being attended to by SARS officers (minutes)



2.7 Summary of SARS Communications Service and Reported Errors at the Provincial Level

The charts below summarize two key variables for SARS performance at the provincial level – an index of the evaluation of SARS’ communications service by tax practitioners and the index of “errors” attributed to SARS.

In order to summarize quality of SARS services we created a composite index that allows assessing seven different aspects of communications between tax payers and SARS personnel on the subject of paying the four major taxes in a single index number. Respondents were asked to evaluate the following aspects of SARS services vis-à-vis each of four major taxes (survey questions 37, 46, 73, and 94):

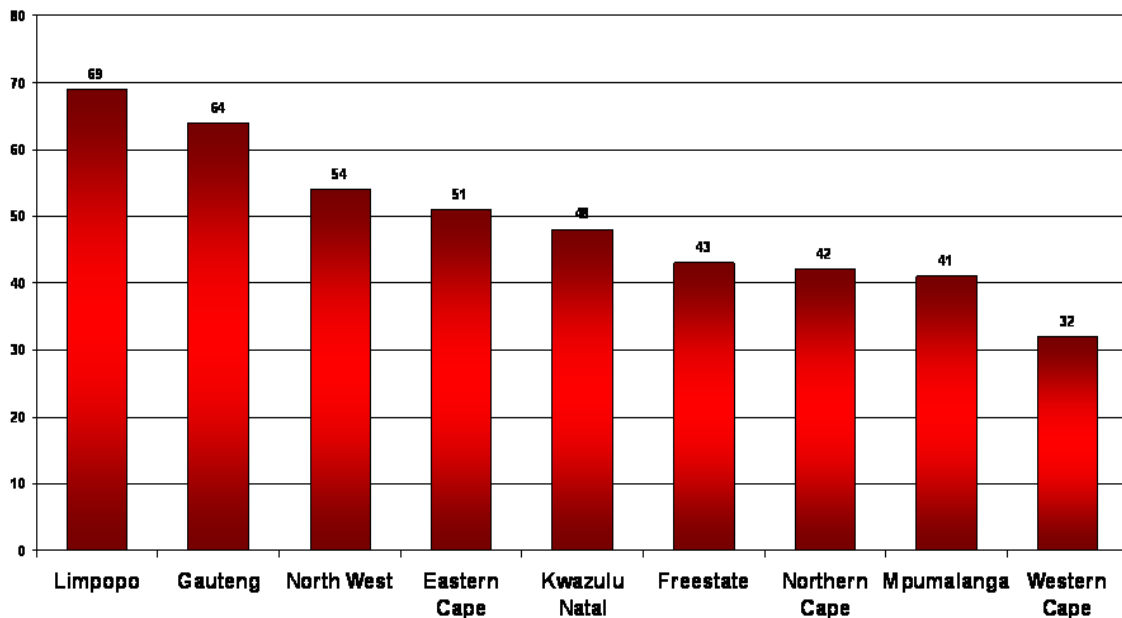
- personal communication,
- written communication by post,

- written communication by fax,
- telephonic communication,
- email communication,
- technical knowledge of SARS personnel,
- timeliness in communications of changes in regulations.

The index was calculated as follows. Respondents were asked to rate each of these services for each tax from very poor (1) to very good (5). An average rating for all respondents was then calculated. These ratings for each of the services than were ranked among provinces from 1 – worst to 9 – best. For each province these rankings were added together across services and taxes and then normalized in order to bring all numbers to a scale from 0 (lowest overall quality of service among nine provinces) to 100 (best quality among provinces). This procedure, while not perfect, allows combining a lot of information in one number.

Based on the values of this composite index, Limpopo has the highest overall quality of taxpayer communications service, closely followed by Gauteng (see Chart 2.15). SARS communications service provided to taxpayers in the Western Cape province are perceived as the worst. The value of the index in the later province is less than a half of what it is in Limpopo.

Chart 2.15 Evaluation of various aspects of SARS Communications service



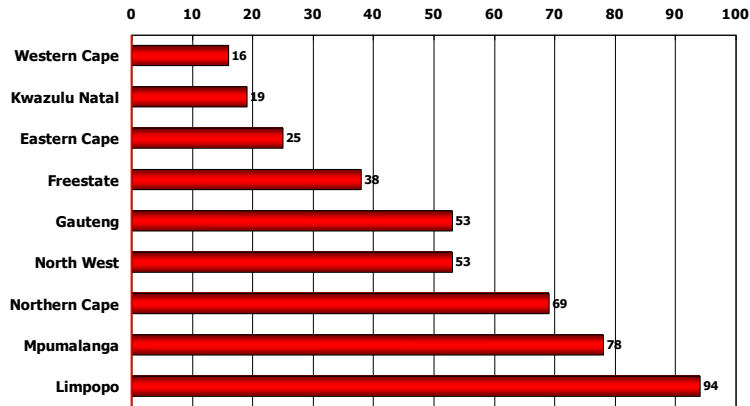
Standardized sum of ranks for evaluation of SARS service on 7 aspects for 4 taxes. Scale minimum is 0 and maximum 100. Lower figures represent lower quality of service.

Another indicator of quality of SARS services is perceived frequency of penalties and interest raised as a result of SARS errors. Respondents were asked to assess these frequencies for each of four taxes (survey questions 28b, 43b, 64b, and 84). A composite index of SARS errors was then created using the same principle as for quality of service index. Chart 2.16 shows that while respondents from the Limpopo province felt that they receive the best communications service, they also perceived that SARS makes mistakes most frequently, as compared to other provinces. On the other extreme, the Western Cape respondents have shown the lowest satisfaction with

SARS communications services, but the value of error index for this province is the best among all the provinces.

Chart 2.16

Composite index of SARS errors



Index of SARS errors – standardized rank sum of frequency of errors means for 4 taxes. Scale minimum is 0 and maximum 100. Higher figures represent higher occurrence of SARS errors

It is interesting to note the Western Cape is credited with the fewest errors (relative to the other provinces), yet receives the lowest relative score from the same respondents in their evaluation of the communications service in that province. Kwazulu Natal Province has the second-lowest index of errors, and ranks in the middle (5th of the 9 provinces) with regard to communications service. Eastern Cape ranks third-best in the index of errors, and ranks 4th with regard to service.

At the other end of the spectrum, and the mirror opposite of the Western Cape, is the Limpopo province, which has the highest index of errors, but is ranked best for communications service. Mpumalanga has the second-worst index of errors, and also ranks second from the bottom in terms of service. Northern Cape rates third from the bottom in terms of errors, and is also third from the bottom in terms of quality of communications service.

3. Discussion of Results, Conclusions and an Outline for Potential next Steps for the Data Analysis

The Tax Practitioner survey yielded a large amount of rich, useful data at relatively little cost and effort. Tax Practitioners are extremely knowledgeable and can make accurate estimates of time and cost estimates of specific procedures. Preliminary comparisons with the results of the direct survey of SMME tax payers show a high degree of consistency. The Tax Practitioner survey seems to be an efficient way to gather information on tax compliance costs on a regular, frequent basis. However, it would still be wise periodically to carry out direct surveys of SMMEs (which are much more expensive and slow) to ensure a thorough understanding of SMMEs, including those who do not outsource any tax preparation work.

While there was comparatively little variation in the Tax Practitioner Survey by turnover band (confirming the regressive nature of tax compliance costs in South Africa, as has already been observed in more developed countries), there appears to be quite a lot of variation by province. In

the case of “costs” (based on prices charged by tax practitioners to their SMME clients), we are not surprised to see higher costs in the more urban provinces, where fees are relatively higher than in rural areas.

But there is also considerable variation in time indicators, and it is not always an urban/rural divide. Rather, it appears that some SARS provincial offices are more efficient than others, and this varies by tax and by procedure. While there is not a strong pattern, it appears that Western Cape often appears most efficient, while some of the rural provinces appear often to be slow and relatively unresponsive within the context of official procedures. However, the rural provinces often rate relatively well with regard to communications with tax practitioners (perhaps because they have a less onerous case-load). There may be considerable scope for identifying “best practice” among provinces for various tax services and attempting to analyze and disseminate the key features of their good performance.

SARS service standards are relatively new and perhaps sometimes ambitious. There are many areas where SARS offices are not yet meeting the goals set by the Service Standards, and it will take further work to meet them. Some provinces are doing relatively better than others, and it may be worthwhile to identify “good practice” among SARS provincial offices and disseminate those practices more widely. In cases where all or most provinces are comfortably exceeding SARS service standards, it may be appropriate to tighten them further, and encourage yet more efficiency gains.

The data from the Tax Practitioner Survey should be compared directly with the data from the direct survey of SMME tax payers to combine the strengths of both surveys (as well as insights from the survey of informal firms) and use the combined data to test a number of hypotheses, including (but not limited to) the following:

- Firms that don’t use professional Tax Practitioners have lower compliance costs in cash (“out of pocket”) terms, but may face significantly higher costs in terms of the opportunity cost of staff time;
- Firms that don’t use Tax Practitioners incur higher rates of SARS queries, penalties, and/or inspections;
- The relatively high variability in time/cost estimates across provinces for tax compliance and reports of SARS response times and service quality are relatively uncorrelated with firm size, legal form, or main activity, and thus are most likely due to result from differences in practices and/or efficiency across SARS provincial offices

It would be beneficial to carry out another survey after reforms are enacted and after firms have had at least one full tax year to experience the new situation. This could make it possible to compare “before” versus “after” survey data and to test another set of hypotheses:

- SMEs face significantly lower compliance costs after reforms have been enacted (test by tax, by procedure, by province)
- SMEs face significantly lower rates of queries and inspections from SARS
- Tax Practitioners report significantly lower rates of SARS errors (may not necessarily be attributable to the reforms, but perhaps from overall improvements in accuracy and efficiency due to more electronic filing)

If some procedural or administrative reforms (e.g., different taxpayer outreach strategies) are tested in some provinces and not others (and especially if they are differentially tested in, say, one of the larger urban provinces and not in the others) it may be possible to test the efficacy of such strategies by comparing the “treatment” provinces against the “control” provinces.

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Annex 1 – Additional data by type of tax

1. Income Tax

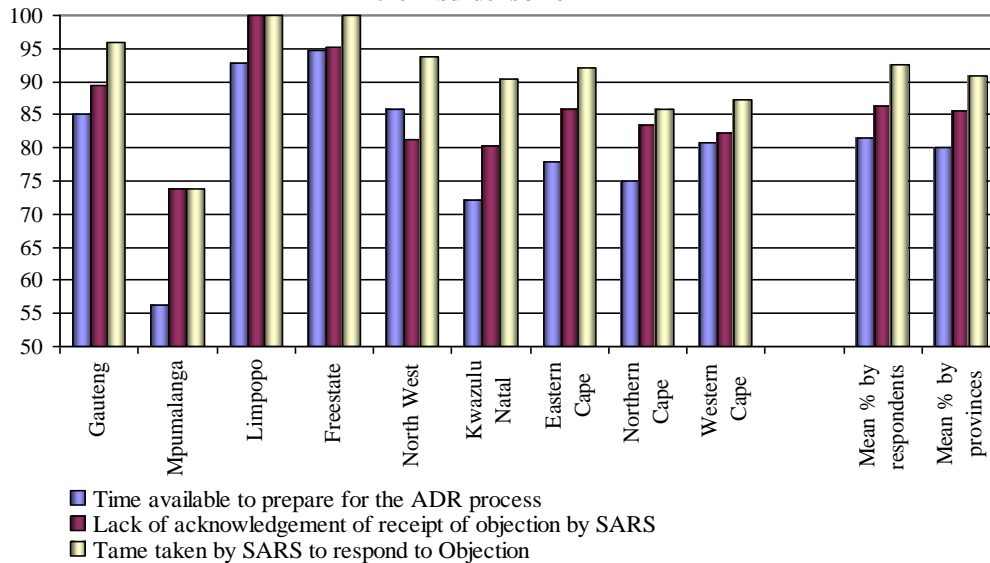
1.1. Objections, disputes, and queries

The work of tax practitioners for their clients does not stop at the submission of tax returns (discussed in the main text, above). They also represent businesses in negotiations with the SARS in cases of disagreements, e.g. when businesses object to tax assessments issued by the SARS. It takes tax practitioners about two hours to prepare a written objection (Question 22).

After the objection is submitted to SARS it takes about 10 weeks for SARS to respond to this correspondence (Question 24). Average response time varies dramatically from 15.3 weeks in the Limpopo province to 6.8 weeks in the North West province.

The majority of respondents reported that time available to prepare for the alternative dispute resolution (ADR) process (the process followed if a taxpayer does not agree to SARS' response to their objection), the lack of acknowledgement of receipt of objection by SARS and the time taken by SARS to respond to their client objections is a burden (Question 25). **Chart 4 [need to fix numbering!]** shows that while over a half of respondents have found each of these aspects burdensome in each province, the most burdensome from their perspective was the length of time taken by SARS to respond to their clients written objections.

Chart 4: Aspects of objection process: percentage of respondents who find them burdensome



1.2. Quality of SARS services and reform agenda

Several questions in the questionnaire dealt with the overall quality of SARS services in respect of income tax and a question was posed about the single most effective reform that would reduce the income tax compliance burden (Question 106b).

Table 1 shows that, on average for the whole country, two issues were mentioned significantly more often than others as the single most effective reform to reduce the compliance burden on SMEs with regard to income tax: (i) special simplified tax regime for small businesses; and another one that can be seen as specific for the population targeted by the survey (ii) direct access to SARS assessors. Respondents from different provinces mostly agreed on the priorities of the suggested reform options. Two most noticeable differences are in Mpumalanga and the Northern Cape provinces where respondents see decentralization of SARS decision-making powers to regional offices as a far more urgent reform compared to their colleagues in other provinces. At the same time, direct access to SARS assessors is much less important to respondents in the latter two provinces.

Table 1: Question 106b - Single most effective reform that would reduce income tax compliance burden

	No experience with this tax	Reduce penalties and interest charges	Ability to register and change personal details online	Direct access to SARS assessors	Special simplified income tax regime for small businesses	Decentralize most of the SARS decision-making powers to SARS regional offices	Other
Gauteng	1.3	5.0	14.3	36	35	5	3
Mpumalanga	0.0	8.3	16.7	18.3	28.3	25.0	3.3
Limpopo	0.0	10.0	16.0	36.0	24.0	10.0	4.0
Free State	0.0	3.6	6.0	42.2	28.9	16.9	2
North West	0.0	6.8	15.3	28.8	30.5	16.9	1.7
Kwazulu Natal	0.4	6.5	10.7	29.4	40.5	10.3	2.3
Eastern Cape	0.0	3.6	9.6	43.4	33.7	8.4	1.2
Northern Cape	0.0	5.9	11.8	23.5	23.5	35.3	0.0
Western Cape	1.4	5.7	9.9	32.6	38	9	3
mean % by respondents	1.0	5.6	12.4	34.1	35.2	8.9	2.9
mean % by provinces	0.3	6.2	12.3	32.3	31.3	15.3	2.4

When asked what is the single most burdensome aspect of dealing with SARS in respect of income tax (Question 109a), respondents most often mentioned either (i) capturing and processing errors made by SARS and time taken to correct these errors; or (ii) inefficiency of SARS call centers (see Table 2 for details). Only two provinces had some other burdensome aspect among the two mentioned most often. For respondents in the Mpumalanga province it was the waiting period for assessments and refunds from SARS and for respondents from Limpopo it was loss of documentation by SARS (for both these provinces these aspects were the second most burdensome aspect instead of “the capturing and processing errors by SARS”).

Respondents were also asked to evaluate seven different aspects of SARS’ services in respect to income tax (Question 37). For the country as a whole, all services, but one scored “above average”. Respondents found SARS’ email communication to be the worst service among seven. The Mpumalanga province tax practitioners were most critical about SARS’ services – percentage share of respondents who considered certain services “poor” or “very poor” was the highest for this province for 5 out of seven services under consideration, for the remaining two this percentage share was second highest among nine provinces (see Table 3 for details). The lowest overall level of dissatisfaction with SARS services (estimated as an average rank of percentage of “poor” and “very poor” responses) was registered in Limpopo province followed

by Gauteng and the Northern Cape. As it was mentioned above, Mpumalanga respondents were by far the most unsatisfied, followed by respondents from the Eastern Cape and the North West provinces.

Table 2: Question 109a - Single most burdensome aspect of dealing with SARS in respect to income tax – Ranking of aspects by level of difficulty (1 –least burdensome, 8 – most burdensome)

	Cannot register without bank account	Call centre inefficiencies and lack of knowledge by call center personnel	Capturing and processing errors by SARS	Loss of documentation by SARS	Penalties and interest incorrectly raised by SARS	Waiting period for assessments and refunds from SARS	Reconciling the assessment to the tax return	Other
Gauteng	2	7	8	5	4	6	1	3
Mpumalanga	4	5	8	5	3	7	1	2
Limpopo	4	6	8	7	1	5	2	2
Freestate	1	7	8	2	4	6	2	5
North West	3	7	8	5	3	6	1	1
Kwazulu Natal	2	7	8	5	3	6	1	4
Eastern Cape	4	8	7	5	1	6	1	3
Northern Cape	5	7	8	6	1	4	1	1
Western Cape	2	8	7	4	4	6	1	3
Mean by respondents	2	7	8	5	4	6	1	3
Mean by provinces	4	7	8	5	3	6	1	2
Number of observation	85	427	533	219	132	280	56	97

Table 3: Question 37 - Evaluation of SARS services in respect to income tax (share of respondents considering certain service to be poor or very poor)

	Personal communication	Communication by mail	Communication by fax	Communication by phone	Communication by email	Technical knowledge of SARS personnel	Communication of changes in regulations
Gauteng	7.2	5.2	16.4	9.5	29	8.1	14.1
Mpumalanga	15.8	15.8	27.8	22.2	42.1	16.7	15.8
Limpopo	0	11.1	16.7	0	17.6	0	11.1
Freestate	9.1	8.3	4	16.7	42.3	3.6	3.6
North West	11.1	5.6	23.5	12.5	31.6	16.7	11.8
Kwazulu Natal	9.9	6	18.8	12.2	31.4	9.8	10.8
Eastern Cape	15.4	6.9	13.3	7.7	40.6	13.8	16.1
Northern Cape	12.5	0	25	14.3	28.6	0	0
Western Cape	14.9	4.1	27.4	12.2	35.7	8.2	13.4
Mean by respondents	10.2	5.6	19.4	11	32.1	8.5	12.9
Mean by provinces	10.6	7	19.2	11.9	33.2	8.5	10.7
Number of observations	610	675	639	607	660	703	691

1.3. Waiting Times and Service Standards

The averages presented in the main text with regard to waiting times for SARS responses may be rather misleading, so in order to put them in perspective we estimated the percentage of respondents who waited for SARS's response/action longer than it is stated in the SARS service charter. Table 4 shows these results. This table shows that the worst situation is with the income tax registration – almost 80% of businesses in Kwazulu Natal receive their registration number later than what is stated in the SARS service charter, even in the “best” case of the Freestate province, 30% of respondents reported that it takes longer than 10 business days. It is not much better in case of income tax refunds – judging by the provincial average, more than 50% of businesses wait for their refunds for more than 30 business days. The other three service categories in Table 5 have lower percentages of respondents reporting waiting time longer than stated in the SARS service charter, but this is not necessarily a reason for celebration – the time periods stated in the charter are very long – 90 business days is more than 4 calendar months.

In terms of the overall service record, the Limpopo province seems to have the worst one, followed by the Freestate and Gauteng. The situation is the least troublesome in Mpumalanga and the Western Cape and NorthWest.

What is surprising is the degree of variation across provinces – the SARS service charter is supposed to be universal across the country, but in reality the situation is very far from this. The difference between “best” and worst provinces is between 48 percentage points for time it takes to receive an income tax registration number from SARS once all of the necessary documentation has been submitted and time it takes SARS to process an income tax return and around 30 percentage points for other three indicators presented in Table 4.

Table 4: Percentage of respondents who waited for SARS's response/action longer than it is stated in the SARS service charter.

	q16	q20	q.21b	q.24	q.32	Overall ranking (average of specific rankings)
	Time it takes to receive an income tax registration number from SARS once all of the necessary documentation has been submitted	Time it takes SARS to process an income tax return	Time it takes to get an income tax refund	Time it takes SARS to respond to an objection	Waiting time for SARS response as a result of inspection / audit	
SARS charter norm	> 10 working days	>90 w/d*	>30 w/d	>90 w/d*	>90 w/d*	
Gauteng	62.6	25.5	55.0	20.4	9.1	7
Mpumalanga	50.0	27.5	42.1	7.9	0.0	1
Limpopo	59.3	38.5	66.7	40.4	20.8	9
Freestate	30.3	32.8	68.8	15.0	15.8	8
North West	38.1	23.8	65.0	5.0	4.2	2
Kwazulu Natal	78.0	20.7	49.5	17.8	13.0	4
Eastern Cape	66.7	21.0	66.7	13.6	8.8	4
Northern Cape	37.5	62.5	62.5	6.3	30.0	4
Western Cape	60.7	14.6	45.8	8.4	6.9	2
Mean by respondents	61.7	23.1	53.4	16.4	9.7	32.9
Mean by provinces	53.7	29.7	57.9	15.0	12.1	33.6

* The closest response options offered in the survey was “from 3 to 6 months” and “over 6 months”. The estimates presented in the table are calculated as a sum of percentages for “over 6 months option and ½ of the percentage for “from 3 to 6 months” option.

2. Provisional Tax

2.1. Quality of SARS services and reform agenda

Several questions in the questionnaire dealt with the overall quality of SARS services with respect to provisional tax and a question about the single most effective reform that would reduce the provisional tax compliance burden (Question 106c).

Table 5 shows that, on average for the whole country, one issue was mentioned significantly more often than others as the single most effective reform to reduce the compliance burden on SMEs: “special simplified tax regime for small businesses.” Respondents from ALL provinces agreed that this is the most important among suggested reform options. The second most effective reform according to respondents was reduction of fines and interest charges, followed closely by the “ability to register and change personal details on line”.

When asked what would be the single most burdensome aspect of dealing with SARS with respect to income tax (Question 109b), respondents were consistent with their earlier responses regarding the most effective reform – penalties and interest incorrectly raised by SARS was considered the most burdensome aspect of dealing with SARS vis-à-vis provisional tax as well (respondents from 5 out of 9 provinces selected this aspect as the most burdensome). Second most burdensome aspect mentioned by respondents was the capturing and processing errors made by SARS and the time taken to correct these errors. Table 6 shows that in case of provisional tax respondents were not as unanimous about most burdensome aspect as in case of income tax.

Table 5: Question 106c - Single most effective reform that would reduce provisional tax compliance burden

	No experience with this tax	Reduce penalties and interest charges	Ability to register and change personal details online	Direct access to SARS assessors	Special simplified tax regime for small businesses	Decentralize most of the SARS decision-making powers to SARS	Other
Gauteng	2.0	17.4	19.0	16.8	35.6	5.4	3.8
Mpumalanga	5.0	25.0	15.0	1.7	33.3	13.3	6.7
Limpopo	2.0	16.0	20.0	14.0	28.0	12.0	8.0
Freestate	3.7	15.9	12.2	19.5	26.8	17.1	4.9
North West	.0	18.6	18.6	16.9	28.8	15.3	1.7
Kwazulu Natal	.8	18.0	16.9	12.3	36.8	8.8	6.5
Eastern Cape	1.2	10.8	16.9	22.9	34.9	7.2	6.0
Northern Cape	.0	23.5	5.9	11.8	41.2	17.6	.0
Western Cape	1.9	17.8	16.1	15.4	36.5	8.1	4.3
% by respondents	1.9	17.5	17.4	15.7	35.1	7.9	4.5
% by provinces	1.8	18.1	15.6	14.6	33.5	11.6	4.6

Table 6: Question 109a - Single most burdensome aspect of dealing with SARS in respect to provisional tax – Ranking of aspects by level of difficulty (1 –least burdensome, 9 – most burdensome)

	No experience in dealing with this tax	Deregistr. process - time taken to deregister	Call centre ineffic. and lack of knowledge by call center staff	Capturing and processing errors by SARS and time taken to co	Loss of document. by SARS when proof of receipt has been	Penalties and interest incorrectly raised by SARS	No confirm. received from SARS when estimates used the t	Reconciling the assessment to the tax return	Other
Gauteng	3	7	6	8	4	9	5	1	2
Mpumalanga	3	7	1	7	5	9	6	3	1
Limpopo	2	5	7	8	9	6	3	1	4
Freestate	2	5	6	6	4	6	9	2	1
North West	3	5	4	9	7	8	5	1	2
Kwazulu Natal	1	8	5	7	2	9	5	2	4
Eastern Cape	4	4	7	8	2	9	6	1	2
Northern Cape	4	5	9	1	5	7	8	1	1
Western Cape	3	6	8	5	1	9	7	3	1
% by respondents	3	5	7	8	4	9	6	1	2
% by provinces	3	5	7	8	4	9	6	1	2
No. of observations	105	244	269	285	151	374	250	69	93

Respondents were also asked to evaluate seven different aspects of SARS' services in respect to provisional tax (Question 46). For the country as a whole, four out of seven services scored "below the average" (i.e. mean score by province was less than 3.5) compared to only one in case of income tax. Respondents found SARS' email communication to be the worst service among seven (same as in case of income tax). The Freestate province tax practitioners were most critical about SARS' services – percentage share of respondents who considered certain services "poor" or "very poor" was the highest for this province for 5 out of seven services under consideration (see Table 7 for details). The lowest overall level of dissatisfaction with SARS services (estimated as an average rank of percentage of "poor" and "very poor" responses) was registered in the North West province.

Table 7: Question 37 - Evaluation of SARS services in respect to provisional tax (share of respondents considering certain service to be poor or very poor)

	Personal commun.	Commun. mail	Commun. by fax	Commun. by phone	Commun. by email	Technical knowledge of SARS personnel	Commun. of changes in regulations
Gauteng	18	7	24	20	42	11	13
Mpumalanga	21	0	23	14	36	0	20
Limpopo	18	25	36	29	56	24	33
Freestate	38	28	33	30	42	29	38
North West	23	8	0	0	39	0	0
Kwazulu Natal	21	7	25	14	31	13	17
Eastern Cape	15	14	24	15	42	11	16
Northern Cape	11	0	22	10	50	0	0
Western Cape	19	9	35	18	44	9	12
Mean by respondents	20	9	27	18	41	11	14
Mean by provinces	21	11	25	17	42	11	17
Number of observations	554	586	545	552	562	614	595

3. Value Added Tax

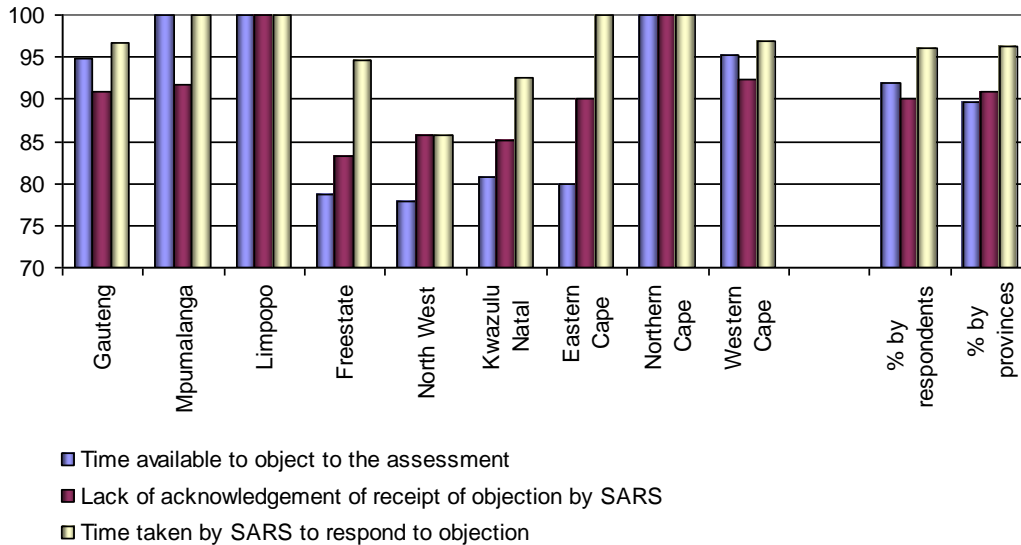
3.1. Objections, disputes, and queries

As discussed above regarding income tax, tax practitioners also represent their clients in negotiations with the SARS in cases of queries, disagreements, (e.g. when businesses object tax assessments issued by the SARS) and inspections for VAT. It takes intermediaries about 2 1/4 hours to prepare a written objection (Question 58).

After an objection is submitted to SARS regarding VAT, it takes just under eight weeks for SARS to respond to this correspondence (Question 60). Average response time ranges from under six weeks in Western Cape Province to over nine weeks in Limpopo, Freestate and Mpumalanga Provinces.

The majority of respondents reported that time available to prepare the alternative dispute resolution (ADR) process for VAT (the process followed if a taxpayer does not agree to SARS' response to their objection), lack of acknowledgement or receipt of objection by SARS and time taken by SARS to respond to their client objections as burdensome (Question 61). **Chart 4** shows that while over a half of respondents have found each of these aspects burdensome in each province, the most burdensome from their perspective was the length of time taken by SARS to respond to their clients' written objections.

Chart 4 - Aspects of objection process: percentage of respondents who find them burdensome



The provinces with the highest percentage of respondents feeling burdened by these three aspects of the objection process were Limpopo and Northern Cape (with all respondents complaining), while Freestate, North West and Kwazulu Natal provinces have the lowest relative percentage of respondents complaining about these problems.

When respondents were asked specifically about the ADR process (Question 62), we again found the length of time taken by SARS to respond to be the most burdensome – almost 70% of

respondents reported that this is burdensome, as compared to 64% reported for the time taken to finalize ADR process, and about 62 and 61 percent for the time spent on the process itself and time spent on preparation for the ADR, respectively. The worst overall situation was reported for the Gauteng province. In the Western Cape and Freestate provinces, the ADR process seems to result in the fewest complaints.

3.2. Quality of SARS services and reform agenda

Several questions in the questionnaire dealt with the overall quality of SARS services in respect to VAT (Q73) and a question about the single most effective reform that would reduce the VAT compliance burden (Question 106a).

Table 8 shows that, on average for the whole country, the most frequently desired reform is “higher mandatory VAT registration thresholds”, agreed by about one quarter of respondents. The next three issues were “ability to register and change personal details online,” “direct access to SARS assessors,” and “simplified registration procedures.” Respondents from different provinces mostly agreed on the priorities of the suggested reform options. Respondents from the more rural provinces of Northern Cape and Mpumalanga were even more strongly in favor of higher VAT thresholds than other provinces.

Table 8: Question 106a - Single most effective reform that would reduce VAT tax compliance burden

	No experience with this tax	Reduce penalties and interest charges	Simplified registration procedures	Simplified deregistration procedures	Ability to register and change personal details online	Direct access to SARS assessors	Higher mandatory VAT registration thresholds	Lower optional VAT registration thresholds	Decentralise most of the SARS decision-making powers to SARS	Other
Gauteng	6.4	5.0	14.7	1.3	20.2	18.3	22.2	.8	7.5	3.5
Mpumalanga	3.3	5.0	8.3	.0	18.3	6.7	33.3	.0	21.7	3.3
Limpopo	2.0	8.0	10.0	2.0	18.0	24.0	20.0	.0	8.0	8.0
Freestate	2.4	6.0	12.0	1.2	13.3	22.9	22.9	.0	16.9	2.4
North West	1.7	5.1	13.6	1.7	20.3	16.9	27.1	.0	10.2	3.4
Kwazulu Natal	3.1	5.0	21.0	.4	22.5	8.8	24.4	1.5	8.8	4.6
Eastern Cape	3.6	2.4	9.6	1.2	22.9	20.5	24.1	1.2	9.6	4.8
Northern Cape	.0	.0	.0	.0	17.6	17.6	41.2	.0	23.5	.0
Western Cape	4.7	5.4	14.6	.9	15.8	13.9	28.8	.5	10.8	4.5
mean % by respondents	4.9	5.1	14.7	1.1	19.2	16.1	24.7	.7	9.6	4.0
mean % by provinces	3.0	4.7	11.5	1.0	18.8	16.6	27.1	.4	13.0	3.8

When asked what is the single most burdensome aspect of dealing with SARS in respect of VAT (Question 109c), respondents in all provinces were unanimous that it was the “period taken to register as a VAT vendor and time taken to be notified of such registration” (see Table 9). In distant second place was the “waiting period for assessments and refunds from SARS” (cited by Freestate, Northwest and Kwazulu as the second-most burdensome aspect of VAT) and “call center inefficiency and lack of knowledge by call center staff” (cited by Limpopo, Eastern Cape and Western Cape).

Table 9: Question 109c - Single most burdensome aspect of dealing with SARS in respect to VAT – Ranking of aspects by level of difficulty (1 –least burdensome, 9 – most burdensome)

	No experience in dealing with this tax	Deregistration process - time taken to deregister	Period taken to register as a VAT vendor and time taken to b	Call centre inefficiencies and lack of knowledge by call center	Capturing and processing errors by SARS and time taken to co	Loss of documentation by SARS when proof of receipt has been	Waiting period for assessments and refunds from SARS	Reconciling the assessment to the tax return	Other
Gauteng	4	3	9	6	8	5	7	1	2
Mpumalanga	4	2	9	4	6	7	7	2	1
Limpopo	1	3	9	8	6	7	5	1	3
Freestate	2	2	9	5	7	6	8	1	2
North West	1	4	9	7	6	5	8	1	1
Kwazulu Natal	5	1	9	6	7	3	8	1	4
Eastern Cape	4	5	9	8	1	7	5	1	1
Northern Cape	1	4	9	6	4	8	6	1	1
Western Cape	4	3	9	8	6	4	7	1	2
Mean by respondents	4	3	9	7	6	5	8	1	2
Mean by provinces	3	3	9	7	5	6	8	1	2
Number of observation	107	74	818	202	180	159	214	27	66

Respondents were also asked to evaluate seven different aspects of SARS’ services in respect to VAT (Table 10, Question 73). For the country as a whole, all services scored “above average”, but respondents found SARS’ email communication to be the worst service among seven, with almost 40% citing it as “poor” or “very poor”. The range across provinces was significant, with over 60% of respondents in the Northwest and Mpumalanga complaining about poor e-mail service while less than 30% of respondents in Limpopo and Kwazulu complained about it. The second most common complaint was about communication by fax, especially in Western Cape.

Table 10: Question 73 - Evaluation of SARS services in respect to VAT (share of respondents considering certain service to be poor or very poor)

	Personal communication	Communication by mail	Communication by fax	Communication by phone	Communication by email	Technical knowledge of SARS personnel	Communication of changes in regulations
Gauteng	7.2	5.2	16.4	9.5	29	8.1	14.1
Mpumalanga	15.8	15.8	27.8	22.2	42.1	16.7	15.8
Limpopo	0	11.1	16.7	0	17.6	0	11.1
Freestate	9.1	8.3	4	16.7	42.3	3.6	3.6
North West	11.1	5.6	23.5	12.5	31.6	16.7	11.8
Kwazulu Natal	9.9	6	18.8	12.2	31.4	9.8	10.8
Eastern Cape	15.4	6.9	13.3	7.7	40.6	13.8	16.1
Northern Cape	12.5	0	25	14.3	28.6	0	0
Western Cape	14.9	4.1	27.4	12.2	35.7	8.2	13.4
Mean by respondents	10.2	5.6	19.4	11	32.1	8.5	12.9
Mean by provinces	10.6	7	19.2	11.9	33.2	8.5	10.7
Number of observations	610	675	639	607	660	703	691

3.3. Waiting Times and Service Standards

Since average waiting times (as presented in the main text above) may be somewhat misleading, in order to put them in perspective we estimated the percentage of respondents who waited for SARS's response/action longer than it is stated in the SARS service charter. Table 11 shows these results. This table shows that the worst situation is with the VAT registration – over 90% of businesses in Kwazulu/Natal receive their registration number later than it is “promised” by the SARS service charter; even in the “best” case of Northern Cape province, over 60% of respondents reported that it takes longer than 10 business days.

The processing time for VAT refunds is much better, ranging from full achievement of the SARS service standard of 20 working days in Mpumalanga to just over 20% facing delays in the North West Province. However, the time it takes a business actually to receive a VAT refund is not as good, such that the best performing province, Western Cape, has about 34% of respondents waiting longer than the 21 days of the SARS service standard, ranging up to a high of 58% facing delays in the North West Province.

In terms of the overall service record, Limpopo province seems to have the worst situation for the probability of lengthy delays, followed by Mpumalanga. The situation is the least troublesome in the Western Cape province.

What is noteworthy is the degree of variation across provinces – the SARS charter is supposed to provide uniform standards across the country, but there are many provinces showing significant shortfalls.

Table 11: Percentage of respondents who waited for SARS's response/action longer than it is stated in the SARS service charter.

	q16	q20	q.21b	q.24	q.32	Overall ranking (average of specific rankings)
	Time it takes to receive a VAT registration number from SARS once all of the necessary documentation has been submitted	Time it takes SARS to process a VAT return	Time it takes to get a VAT refund	Time it takes SARS to respond to an objection	Waiting time for SARS response as a result of inspection / audit	
SARS charter norm	> 10 w/d	>20 w/d	>21 w/d*	>90 w/d**	>90 w/d**	
Gauteng	82.1	8.3	41	11.5	8.4	5.0
Mpumalanga	80	0	56.4	15.8	25.1	4.2
Limpopo	85.7	15.4	50	15.4	5.6	3.2
Freestate	78.6	7.7	40.9	13	20.9	5.4
North West	75	21.1	58	8.4	0.5	5.0
Kwazulu Natal	90.5	12.5	44.3	7.2	4.4	4.8
Eastern Cape	84.2	5.3	50	10.7	4.2	5.6
Northern Cape	62.5	14.3	57.2	6.2	33.4	4.6
Western Cape	87	6.4	34.1	4.5	2.6	7.0
Mean by respondents	83.5	8.7	42.2	9.6	7.6	
Mean by provinces	80.6	10.1	48	10.3	11.6	

* The calculation is based on approximation of 21 working days to 4 weeks

** The closest response options offered in the survey was “from 3 to 6 months” and “over 6 months”. The estimates presented in the table are calculated as a sum of percentages for “over 6 months option and ½ of the percentage for “from 3 to 6 months” option.

4. Employees' Tax

4.1. Quality of SARS services and reform agenda

Several questions in the questionnaire were dealing with overall quality of SARS services in respect to employees' tax (Q94) and a question about the single most effective reform that would reduce the compliance burden for employees' tax (Question 106d).

Table 12 shows that, on average for the whole country, the most frequently desired reform for employees' tax is a "special simplified tax regime for small businesses", agreed by almost one third of respondents. The next two issues were "ability to register and change personal details online," and "direct access to SARS assessors," agreed by 20% and 18% respectively. Respondents from different provinces mostly agreed on the priorities of the suggested reform options.

Table 12: Question 106a - Single most effective reform that would reduce the tax compliance burden for employees' tax

	No experience with this tax	Reduce penalties and interest charges	Ability to register and change personal details online	Direct access to SARS assessors	Special simplified tax regime for small businesses of the SARS	decision-making powers to SARS	Other
Gauteng	6.1	9.6	21.5	19.9	31.4	7.8	3.6
Mpumalanga	.0	14.0	24.6	7.0	29.8	15.8	8.8
Limpopo	6.0	14.0	26.0	20.0	16.0	12.0	6.0
Free state	6.1	7.3	17.1	22.0	32.9	13.4	1.2
North West	1.7	15.3	23.7	13.6	30.5	13.6	1.7
Kwazulu Natal	5.7	11.8	19.1	13.4	38.5	6.9	4.6
Eastern Cape	3.6	13.3	24.1	21.7	27.7	9.6	.0
Northern Cape	11.8	11.8	29.4	5.9	17.6	17.6	5.9
Western Cape	8.5	10.7	15.6	17.8	34.8	8.3	4.3
mean % by respondents	11.7	20.1	37.9	33.8	61.1	16.4	7.2
mean % by provinces	6.2	10.7	20.1	18.0	32.5	8.7	3.8

When asked what is the single most burdensome aspect of dealing with SARS in respect to employees' tax (Question 109d), respondents in almost provinces agreed that it was "reconciling the assessment to the tax return." (see Table 13).

Table 13: Question 109d - Single most burdensome aspect of dealing with SARS in respect to employees' tax – Ranking of aspects by level of difficulty (1 –least burdensome, 9 – most burdensome)

	No experience in dealing with this tax	Time taken to receive IRP 5 and IT3(a) books from SARS	Call centre inefficiencies and lack of knowledge by call centre personnel	Capturing and processing errors by SARS and time taken to correct these errors	Loss of documentation by SARS when proof of receipt has been obtained by taxpayer	Penalties and interest incorrectly raised by SARS	SARS contacts your client directly regarding 'missing' returns	Reconciling the assessment to the tax return	Other
Gauteng	6	7	5	1	2	4	3	8	9
Mpumalanga	8	3	8	1	2	3	3	6	6
Limpopo	6	6	3	1	2	5	4	9	8
Freestate	8	5	2	4	2	7	1	5	9
North West	9	5	3	2	3	6	1	8	7
Kwazulu Natal	6	2	5	1	7	3	4	9	8
Eastern Cape	4	6	1	4	3	6	2	8	9
Northern Cape	4	4	4	1	3	4	2	9	4
Western Cape	5	7	3	1	4	5	2	9	8
Mean by respondents	6	7	4	1	2	5	3	9	8
Mean by provinces	7	6	4	1	3	5	2	9	8
Number of observation	176	157	229	348	277	207	267	81	97

Respondents were also asked to evaluate seven different aspects of SARS' services in respect to employees' tax (Table 14; Question 94). For the country as a whole, all services scored "above average", but respondents found SARS' email communication to be the worst service among seven, with over one third citing it as "poor" or "very poor". The range across provinces was significant, with fully half of respondents in Northern Cape Province complaining about poor e-mail service while only 10% of respondents in Mpumalanga complained about it. The second most common complaint was about communication by fax, especially in the Western Cape.

Table 14: Question 73 - Evaluation of SARS services in respect to employees' tax (share of respondents considering certain service to be poor or very poor)

	Personal communication	Communication by mail	Communication by fax	Communication by phone	Communication by email	Technical knowledge of SARS personnel	Communication of changes in regulations
Gauteng	10.9	5.4	17.1	9.9	31.1	7.6	10.9
Mpumalanga	.0	.0	10.0	10.0	10.0	9.1	10.0
Limpopo	.0	.0	25.0	25.0	20.0	16.7	.0
Freestate	16.7	7.7	16.7	20.0	45.5	18.2	10.0
North West	.0	.0	10.0	.0	33.3	20.0	.0
Kwazulu Natal	12.2	8.7	20.5	14.0	31.9	12.2	13.6
Eastern Cape	9.1	16.7	20.0	8.3	25.0	8.3	33.3
Northern Cape	33.3	.0	20.0	.0	50.0	.0	20.0
Western Cape	15.0	1.6	26.2	11.5	43.5	10.4	7.1
Mean by respondents	11.3	5.1	19.4	10.9	33.6	9.8	10.9
Mean by provinces	10.8	4.4	18.4	11.0	32.3	11.4	11.7
Number of observations	293	279	275	292	316	302	293

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