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Specific rewards for tax compliance: Responses of small business owners in Ekurhuleni, South Africa

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Abstract

The literature reviewed documents the positive effects of rewards in encouraging desired behaviour, but rewards may have a crowding in effect, strengthening intrinsic motivation, or a crowding out effect, weakening it. External interventions may therefore be perceived as supporting, fostering self-esteem and self-determination, while those perceived as controlling may have the opposite effect. A number of countries have adopted a strategy of rewarding tax compliance. Rewards range from certificates awarded to compliant taxpayers, to privilege cards providing opportunities for discounts or special treatment, to lotteries in which compliant taxpayers can participate. The reward strategies are often accompanied by publicity programmes. Two such hypothetical strategies were presented to participants in a survey conducted amongst small business owners in Ekurhuleni, South Africa, to gauge their responses. The first strategy, presented in the form of a vignette, involved a lottery scheme and the second a tax compliance certificate and public recognition. The results of the research indicate support by the participants for the acknowledgement of tax compliant behaviour by the 57.58% of the 41109(th)-84(u)-6(g)

relational nature without a specific monetary value (Kenya), whereas the other type of reward consists o

Behaviour reward treatment, where the collected tax revenue is redistributed to the subjects with the highest contribution to the public good within a group; and 3) an Anti-Social Behaviour reward treatment, where the tax revenue is redistributed to the subjects with the lowest public good contribution.

Based on their results, Fochmann and Kroll (2014: 25) concluded that rewards have either no effect (for those who are rewarded) or a negative effect (for those who are not rewarded) on tax compliance.

According to Frey et al (2001: 594) the effect of external interventions on intrinsic motivation is attributed to two psychological processes, namely:

Impaired self

2.2 Principles for rewarding socially desired behaviour derived from the marketing environment

Privilege cards for compliant taxpayers are reminiscent of loyalty programmes often found in the retail environment. One can argue that a tax authority does not have loyal customers, but it is evident from an Organisation for Economic Co-operation and Development information note on managing and improving tax compliance (OECD, 2009) that many tax authorities refer to taxpayers 'customers' and regard 'customer service' as a priority. A Warc Exclusive report (2010) states that it costs more to attract new customers than to retain existing ones and that a company's relationship with an existing customer can be more effectively built, and more efficiently managed, than the more distant contact that might exist with lapsed or non customers. It is submitted that the analogy in terms of the tax authority and taxpayers is that voluntarily compliant taxpayers can be regarded as existing customers with whom the tax authority has a relationship that needs to be managed.

Kotler and Zaltman (1971) reason that the core idea of marketing lies in the exchange process between two or more parties to initiate social change (e.g. safe driving, family planning, tax compliance), social marketing is used as a tool in the exchange relationship between client and the change agent.

(not so much a feeling of appreciation or gratification); they suggest that rewards should preferably have financial benefits. Dolan, Hallsworth, Halpern, King, and Vlaev (2010) state that people dislike losses more than they like gains of an equivalent amount. They suggest as an alternative that incentives could be framed as a charge that will be imposed if people fail to do something. They cite a recent study on weight loss where participants were asked to deposit money into an account, which was returned to them (with a supplement) if they met weight loss targets. After seven months this group showed significant weight loss, whereas the weight of participants in a control group (who did not deposit the money) was not seen to change. The fear of losing money may have created a strong incentive to lose weight.

Bornman (2014) summarises the implications of loyalty schemes and other types of reward schemes for rewarding tax compliance as follows:

1. a reward is seen as being given something in return for your contribution to the public good (other than the public good itself);
2. a reward must have a perceived value for the customer (taxpayer);
3. the perceived value can also be the avoidance of a loss;
4. rewards must distinguish (recognise) and be given to those who meet the criteria;
5. rewards can be given as a token of appreciation; and
6. a reward does contribute to loyalty (compliance) although it will not necessarily create loyalty (compliance). Customers (taxpayers) are more motivated to comply with, than without the reward.

In the following section, two actual reward strategies used by tax authorities are reviewed, one which is more of a relational nature (social marketing) and one which offers a monetary incentive (lottery scheme).

2.3 Reward strategies used in Kenya and Mauritius

Some tax administrations are rewarding taxpayers for demonstrating good compliance behaviour. For example, the Kenya Revenue Authority (KRA) hosts an annual taxpayers' week during which the most distinguished taxpayers in the country are rewarded with certificates. The Commonwealth Association of Tax Administrators, (2006). The Mauritius Revenue Authority (MRA) introduced a lottery draw in 2012 which allowed all taxpayers who filed their returns electronically to automatically participate (MRA, 2012). The two strategies are described in more detail below.

the speeches delivered at certain events are broadcast on national television (KRA,

administrative clerks or sales persons (18%) although it could be argued that the fact that not all the respondents were small business owners renders the results less valid, their participation in the survey was none the less valid as 94 per cent of the sample (or 166 respondents) indicated that they were aware of the standing of the business with SARS was, with regard to income tax. Within this group of 166 respondents 82 per cent indicated that the tax function is their responsibility. This indicates that they could participate meaningfully in the survey.

A total of 141 respondents indicated that the business makes use of a tax practitioner to complete tax returns, that is, almost 80 per cent. Earlier research by Langham, Paulsen and Hartel (2012) indicated that taxpayers' reliance on tax practitioners may decrease their tax awareness and may actually reduce levels of voluntary compliance. The implications for the survey are that some business owners may have low levels of tax awareness as they leave the tax decision in the hands of a tax practitioner. This may result in an apathetic response to the questionnaire. On the other hand, the fact that so many of the businesses make use of a tax practitioner might be an indication of high levels of compliance by the majority of businesses included in the sample.

4.2 Results of the first scenario

Details of the first scenario presented to participants and their responses are provided below.

4.2.1 Vignette 1

SARS announces that for the 2014 year of assessment, they will implement a lottery scheme in which all tax registered businesses can participate. A small business that submits its income tax return on time, will receive a lottery ticket and be entered into the draw to take place at the end of 2014. The winner will be subject to an audit to verify the correctness of information submitted before the prize is awarded and if found to be non-compliant, a second winner will be drawn subject to the same audit procedure. The prize will be of substantial monetary value.

Table 2: Responses on statements B15 based on Vignette 1 (n = 172)

Statement	Mean	Mode	Standard deviation
B1. This scheme will have an effect on my current tax behaviour	3.09	4	1.283

It is noteworthy that the responses to statement B3 are more in agreement with the statement than the responses for statements B1 and B2. This points to the fact that respondents believe it may change the behaviour of other small business owners, but not to the same extent on their own behaviour. It was stated earlier that levels of tax compliance may be high for the sample (due to the high awareness of the tax status of the business and the high incidence of the use of tax practitioners by the respondents).

4.3 Results of the second scenario

4.3.1 Vignette 2

SARS announces that all small businesses that submit tax returns on time in 2014 will be presented with a certificate that will be issued to every small business individually. The certificate is printed on expensive paper, with black and gold lettering and is framed so that it can be displayed in the office of the business. The certificate will state that the business was found to be tax compliant and is declared a member of the South African

It is suggested that further research could be undertaken to determine the effectiveness of reward strategies in encouraging voluntary tax compliance in the countries where they are currently being used to determine the attitudes of those taxpayers in relation to the strategies; and to reveal the problems and disadvantages of using these strategies.

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