FACTORS INFLUENCING TAX EVASION

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I would like to extend my gratitude to:

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- my wife, Gerda, for her motivation, support and assistance whilst also busy with her Master’s degree and looking after our baby son, Hannes;
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Taxation and tax evasion is an observable fact that occurs in all societies. In South Africa, tax evasion is one of the most sinister forms of crime and millions of rands are sidetracked by tax criminals. Studies from various countries indicate that it is not unusual for about half of the possible tax revenues to remain uncollected.

Tax evasion is not something that is restricted to poor third world countries, it is a global phenomenon that has been there from the time tax was invented and will in all likelihood be with us until the end of time.

Tax evasion is an intricate and overall hidden behaviour, but it has significant social and economic consequences. Taking this into consideration almost anything could influence the taxpayer’s decision to evade tax or not. The decision to comply with tax laws or to evade tax depends on various internal and external factors with regard to the taxpayer and this may differ from person to person.

This study discusses the various factors influencing the taxpayer’s decision to comply with tax legislation, and whether these factors differ or correlate in developed and developing countries.

Firstly, the factors influencing tax evasion in the United States of America and Switzerland were determined, after which the factors influencing tax evasion in South Africa and Brazil
were determined. Secondly, the factors in the developed countries were compared to those in developing countries. Lastly these comparisons were analysed and they determined whether there were any major differences between the factors influencing tax evasion in developed and developing countries.

Keywords:

Tax evasion
Factors influencing tax evasion
Tax evasion in developing countries
Tax evasion in developed countries
OPSOMMING

FAKTORE WAT BELASTINGONTDUIKING BEÏNVLOED

deur

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Belasting en belastingontduiking is ‘n waarneembare feit wat in alle samelewings voorkom. Belastingontduiking is een van die mees ernstige vorme van misdaad in Suid-Afrika en miljoene rande word deur belastingontduikers gesteel. Studies vanuit verskillende lande dui daarop dat dit nie ongewoon is dat omtrent die helfte van die moontlike belasting-inkomste nie ingevorder word nie.

Belastingontduiking is nie beperk tot arm derdewêreldlande nie, dit is ’n wêreldwye verskynsel, en was daar van die tyd dat belasting uitgevind is en sal in alle waarskynlikheid met ons wees tot aan die einde van tyd.

Belastingontduiking is 'n ingewikkelde en grootliks verborge gedrag, maar dit het belangrike sosiale en ekonomiese gevolge. Met dit ingeadigte kan byna enigiets die belastingbetalers se besluit beïnvloed om belasting te ontduik of nie. Die besluit om aan belastingwetgewing te voldoen of om belasting te ontduik hang af van verskeie interne en eksterne faktore met betrekking tot die belastingbetalers en verskil waarskynlik van persoon tot persoon.

Hierdie studie bespreek die verskillende faktore wat die belastingbetalers se besluit om aan belastingwetgewing te voldoen beïnvloed, en of hierdie faktore verskil of korreleer tussen ontwikkelde en ontwikkelende lande.
Eerstens was die doel van die studie om die faktore wat belastingontduiking in die Verenigde State van Amerika en Switserland beïnvloed te bepaal, gevolg deur die bepaling van die faktore wat belastingontduiking in Suid-Afrika en Brasilië beïnvloed. Tweedens is die faktore in ontwikkelde lande met dié in ontwikkelende lande vergelyk. Laastens is hierdie vergelykings ontleed om te bepaal of daar groot verskille is tussen die faktore wat belastingontduiking beïnvloed in ontwikkelde lande in vergelyking met ontwikkelende lande.

Sleutelwoorde:

**Belastingontduiking**

**Faktore wat belastingontduiking beïnvloed**

**Belastingontduiking in onwikkelde lande**

**Belastingontduiking in ontwikkelende lande**
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FACTORS INFLUENCING TAX EVASION

1 INTRODUCTION

1.1 BACKGROUND

When Jesus was asked by the Pharisees whether it was right to pay taxes to Caesar or not he responded by saying: “Here, show me the Roman coin used for the tax. ‘When they handed him the coin, he asked, ‘Whose picture and title are stamped on it?’ ‘Caesar’s’, they replied. ‘Well then,’ he said, ‘give Caesar what belongs to him. But everything that belongs to God must be given to God.”’ (Holy Bible, Matthew 22:19-21).

Taxation and tax evasion is an observable fact that occurs in all societies (Bird & Oldman in Oberholzer & Stack, 2009:739). In a study done by Fjeldstad and Semboja (2001:2066) it was found that when the tax authority of Tanzania structured a tax campaign, the taxpayers literally made themselves invisible by hiding in the bushes.

Oberholzer and Stack (2009:739) summarises it perfectly by stating that “Taxation and evasion have always gone hand in hand.”

Taxpayers have to give up their hard earned money without receiving noticeable benefits in return, which affects taxation (Coetzee & Theron in Oberholzer, 2008a:46). This negative attitude may influence the taxpayer towards paying taxes and the government in turn might lose revenue in the process (Oberholzer, 2008a:65). Therefore, the success of income tax relies on the truthfulness of the taxpayers (Adams in Oberholzer, 2008a:49).

According to Manuel (1999), the previous Minister of Finance in South Africa (RSA), the non-compliance of tax legislation and tax fraud are ranked up there with some of the most sinister criminal activities in RSA. He continued by stating that these criminal activities cost RSA a considerable amount of rand each and every day. Pravin Gordhan, then Commissioner for the South African Revenue Services (SARS), now Minister of Finance in
RSA, stated that approximately R20 billion vanish due to tax evasion annually (Sawyer in Oberholzer, 2008a:50).

Feinstein (1991:14) stated that income tax evasion is one of the most common economic crimes in the United States of America (USA). Studies from various countries indicate that it is not unusual for about half of the possible tax revenues to remain uncollected (Bird in Fjeldstad & Semboja, 2001:2059). Hence tax evasion is not something that only occurs in RSA; in fact it is a global phenomenon.

Oberholzer and Stack (2009:737) mentions the ‘tax gap’ in RSA, which is described as a significant space between the collectable tax and the tax that is actually gathered. The attitudes and perceptions of the taxpayer may lead to non-compliance which could be one of the key causes of this mentioned tax gap. The tax gap consists of two components: firstly the failure of the taxpayer to register and secondly the failure of the taxpayer to declare his or her full income (Hazelhurst & Delport in Oberholzer, 2008a:51).

Throughout the world the compliance rate between countries differ. The Katz Commission (in Oberholzer, 2008a:49) stated that the tax gap in a first world country is approximately 10% and that of a third world country approximately 33%. They go further by stating that the RSA tax gap was approximately 20% at that stage. According to Alm and Torgler (2006:224), tax evasion is higher in Spain as to the tax evasion in the USA, Austria and Switzerland.

According to Hessing, Elffers, Robben and Webley (in Oberholzer & Stack, 2009:739), taxpayers have been classified into three groups. The first group is taxpayers that will never evade taxes. The second is taxpayers who will sometimes try to evade tax and the last group is taxpayers who will always try to evade tax on a habitual basis. The question therefore remains: which factors result in taxpayer compliance?

Slemrod (2007:25) mentioned that in the third century the Romans used to bury their jewellery and gold coins to evade the luxury tax. Home-owners in the eighteenth century in England used to temporarily brick up their fireplaces to escape the hearth tax collector. Although times have changed and how and on what tax is levied, from this one can clearly
see that tax evasion is not something that has recently come to light, but in fact has been around for many, many years and will be around for many, many more. One can even go as far as stating that as long as tax is levied tax will also be evaded.

Tax evasion or compliance is a multifaceted decision that is motivated by an assortment of factors (Cummings, Martinez-Vazquez, McKee & Torgler, 2009:456). These factors include the threat of detection and the punishment, increased enforcement, tax morale, quality of government and improvements by government. Dell’Anno (2009:995) stated from a social point of view that the willingness of the taxpayer to comply is affected by the specific individual’s perception of the effectiveness of the government when it comes to low employment and inflation rates and the upholding of the law.

The idea is to have all taxpayers fully compliant at all times. The ideal is obviously not attainable and revenue authorities need to be able to identify evasion practices and understand why taxpayers evade taxation. Pro-active measures can then be developed and applied to strengthen compliance.

The question still remains: To pay or to evade tax? Why do some people choose to pay their taxes and other people choose to evade paying their taxes? Could it only be to save some money or are there other reasons?

To comply with tax legislation is the duty of all taxpayers and the main interest of the government is for taxpayers to follow their duties and adhere to the tax legislation, in spite of their reasons for compliance (Kirchler, Hoelzl & Wahl, 2008:210). According to Lin and Yang (2001:1836) the amount the USA spent on trying to minimise tax evasion in the 1995 fiscal year was eight billion dollars ($7.6), which was around one percent (0.6%) of the annual revenue collected that year. This shows that tax evasion is taken very seriously and that governments try to keep it as low as possible.

Tax evasion is an intricate and overall hidden behaviour, but it has significant social and economic consequences (Lewis; Hessing et al. in Oberholzer & Stack, 2009:739). According to numerous studies done in developing countries, it is not unusual that 50% or more of the possible income from tax stay uncollected (Bird in Fjeldstad & Semboja,
Kinsey (in Gcabo and Robinson, 2007:362) stated that the most common form of tax evasion is the under declaring of income.

Obtaining the specific reason why a taxpayer would commit tax evasion in itself is a difficult task, let alone within the situation of a developing country such as RSA (Gcabo & Robinson, 2007:357). According to Smith and Kinsey (in Gcabo & Robinson, 2007:362), the decision to evade tax consists of numerous considerations and includes several activities such as “deliberately ‘forgetting’ to submit tax returns or mentally redefining some earnings as non-taxable.” Taking this into consideration almost anything could influence the taxpayer’s decision to evade tax or not, whether it is done deliberately or by accident, due to ignorance.

Numerous developing countries are not successful in acquiring the necessary revenue to maintain their public sectors. A ratio of roughly 35% of the average tax revenue over the Gross Domestic Product (GDP) was obtained by the developed counties in 2005, whereas the developing countries came in at only 15%. The ratio even went as low as 12% in the poorest of the developing countries. Common belief is that tax avoidance and tax evasion are to blame for keeping the GDP ratio at such low levels (Fuest & Riedel, 2009:1).

Obtaining statistical information regarding the amount of tax revenue not collected by the government due to tax avoidance and tax evasion is a difficult task. Efforts to predict the amount of tax avoidance and tax evasion therefore have to be based on theories which exploit the relationship between visible and statistically documented variables. Developing countries encounter even more problems in obtaining these figures compared to developed countries (Fuest & Riedel, 2009:6).

The problems relating to the obtaining of the economic information in developing countries may provide an explanation as to why there is not much dependable empirical confirmation on tax avoidance and tax evasion (Fuest & Riedel, 2009:6).
1.2 PROBLEM STATEMENT

The decision to comply with tax laws or to evade tax depends on various internal and external factors with regard to the taxpayer and this may differ from person to person.

Therefore, to understand the taxpayer’s behaviour is crucial. Despite many studies done in developed countries, not a great deal of research has been done in developing countries on why people evade tax. The reason for tax evasion in developed and developing countries therefore needs to be determined and compared.

1.3 PURPOSE STATEMENT

The purpose of this study is to determine the factors that cause people to commit tax evasion in developed and developing countries. The developed countries that will be considered will consist of the United States of America (USA) and Europe with a specific focus on Switzerland. These results will then be compared to studies done in developing countries namely, Sub-Saharan countries with a focus on RSA and Latin American countries, with a special focus on Brazil.

1.4 RESEARCH QUESTION

The Research Question is formulated as follows:

How do the factors influencing tax evasion in developed countries, namely the USA and Switzerland, compare to the factors in developing countries, namely RSA and Brazil?

1.5 RESEARCH OBJECTIVES

The following objectives will be discussed in the study:

- to determine the factors influencing tax evasion in the USA and Switzerland;
- to determine the factors influencing tax evasion in RSA and Brazil;
• to compare the factors influencing tax evasion in developed countries to those in developing countries;
• to analyse these comparisons and determine if there are major differences between developed and developing countries;

1.6 IMPORTANCE AND BENEFITS OF THE STUDY

This study will be of value to the revenue authority of RSA, namely SARS.

Factors influencing tax evasion such as the status of the individual (age, gender and education/income level), Inland Revenue Services (penalties, audits and personal contact) and psychological factors (attitude, tax morale and feelings towards the government) will be identified and a comparison will be made between the developed and developing countries.

Based on these comparisons SARS will then be able to develop strategies to strengthen tax compliance.

1.7 DELIMITATIONS

The study will mainly compare the reasons for tax evasion applicable to natural taxpayers and will not focus on tax evasion by non-natural taxpayers, for example companies and closed corporations.

This study cannot be generalised to all countries, just those that we focus on.

1.8 DEFINITION OF KEY TERMS

The following are definitions used within the literature review:

• Developed country: Different organizations have different criteria for a country to be classified as a developed country. According to the United Nations statistics division
the following regions are classified as developed countries: Northern America, Europe, Japan, Australia and New Zealand (United Nations statistics division, 2011). This classification was applied in this study.

- **Developing country**: As stated above no fixed standards exist for classifying a country as a developing country. The United Nations statistics division classify the following regions as developing regions: Africa, Americas excluding Northern America, Caribbean, Central America, South America, Asia excluding Japan, Oceania excluding Australia and New Zealand (United Nations statistics division, 2011). As per the developed countries this classification was applied in this study.

- **Evasion**: According to the Oxford dictionary (2010b) evasion is defined as: “the action of evading something”. Evading in turn is defined as: “escape or avoid (someone or something), especially by guile or trickery”.

- **Inland Revenue services**: According to the Oxford dictionary (2010d) Inland Revenue is defined as: “the government department responsible for assessing and collecting public revenue, consisting of income tax and some other direct taxes.”

- **Marginal tax rate**: According to the Lightbulb Press Dictionary of Financial (2008) marginal tax rate is defined as: “…the rate you pay on the taxable income that falls into the highest bracket you reach: 10%, 15%, 25%, 28%, 33%, or 35%. For instance, if you have a taxable income that falls into three brackets, you would pay at the 10% rate on the first portion, the 15% rate on the next portion, and the 25% federal tax rate on only the third portion. Your marginal rate would be 25%. However, your marginal tax rate is higher than your effective tax rate, which is the average rate you pay on your combined taxable income. That's because you're only paying tax at your marginal, or maximum, rate on the top portion of your income.” One should keep in mind that every country uses its own marginal tax rate, which also changes from time to time. The above mentioned marginal tax rates are thus not the same for all countries.

- **Tax**: According to the Oxford dictionary (2010a) tax is defined as: “a compulsory contribution to state revenue, levied by the government on workers' income and business profits, or added to the cost of some goods, services, and transactions”.

- **Tax avoidance**: This is achieved by finding loopholes in the legislation and taking advantage of it (Sandmo, 2005:4).
**Tax evasion:** By looking at the definitions of tax and evasion separately and then combining them one could say that tax evasion means: To escape or avoid the compulsory contribution levied by the government by means of guile or trickery. Torgler and Schaltegger (2006:396) define tax evasion as the extent to which taxpayers do not pay their taxes as per legislation.

**Tax gap:** “The difference between the expected and actual revenue generated by tax authorities.” (Gcabo & Robinson, 2007:358). Fuest and Riedel (2009:15) defines the tax gap as the difference between the revenue that would have been collected in a perfect world with full compliance of tax legislation and the revenue that was actually collected. The tax gap may thus occur in two stances. Firstly the tax gap could occur due to taxpayers under declaring their income or not filing their returns at all. This under declaring and non-filing of their returns makes for almost 90% of the total tax gap in developed countries. Secondly making up the other 10% of the tax gap is the difference between the amount of tax fiscally levied to the taxpayer and the amount fiscally received by the Inland Revenue Service (Fuest & Riedel, 2009:15).

**Tax rate:** According to Farlex Financial Dictionary (2009) tax rate is defined as “A percentage of one's income that one must pay in taxes. Tax rates vary according to incomes.”

The following abbreviations are used within the literature review:

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Meaning</th>
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<tbody>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>IRS</td>
<td>Inland Revenue Service</td>
</tr>
<tr>
<td>RSA</td>
<td>South Africa</td>
</tr>
<tr>
<td>SARS</td>
<td>South African Revenue Services</td>
</tr>
<tr>
<td>USA</td>
<td>United States of America</td>
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</table>
1.9 CONCLUSION

As can be seen from the above, tax evasion is as old as time itself and has been and will probably be there as long as tax is to be paid.

Why taxpayers commit tax evasion is a mystery and no one knows the answer for sure. There are, however, some factors that could shine some light on the reasons why taxpayers would consider evading tax.

Firstly the difference between tax avoidance and tax evasion needs to be addressed. In chapter two the difference between tax avoidance and tax evasion is analysed and explained. As this literature study looks at the factors influencing tax evasion the distinction between tax avoidance and tax evasion is essential.

In chapter three a closer look is taken at the factors influencing tax evasion in developed countries. Research from the USA and Europe is taken into account in determining the factors influencing tax evasion in developed countries. With regard to Europe, particular attention will be given to Switzerland.

In chapter four the factors influencing tax evasion in developing countries are discussed. Research from a Sub-Saharan country and that of Latin America is used to determine the factors influencing tax evasion in developing countries, with RSA and Brazil being the focus point respectively.

In the last chapter, chapter five, the factors influencing tax evasion in developed countries and developing countries are compared and analysed to highlight any major differences that may exist.
2 DIFFERENCE BETWEEN TAX EVASION AND TAX AVOIDANCE

2.1 INTRODUCTION

As was seen in the introduction it is clear that countries face a huge problem in relation to tax evasion.

This brings to light another problem: what is tax evasion and how does tax evasion differ from tax avoidance?

There is a thin line between tax evasion and tax avoidance, making it difficult to distinguish between the two (Fuest & Riedel, 2009:5).

The approach a taxpayer takes to either evade tax or to avoid tax is in essence the same. Both aim to reduce or get rid of the tax burden altogether. Although almost literally the same, they are distinguished lawfully (Prebble & Prebble, 2010:702-703).

Even though the difference between tax evasion and tax avoidance sounds simple, it is not; as previously stated no definition exists within the tax laws as to what tax evasion exactly is. One would easily find a taxpayer who believes that what he or she has done falls within the scope of tax avoidance and he or she has done nothing wrong, and no one will convince him or her otherwise.

2.2 DEFINITIONS

2.2.1 Tax Evasion

According to Prebble and Prebble (2010:702-703), tax evasion is against the law. It is derived when a taxpayer deliberately contravenes or infringes on the tax legislation in order to lower his tax burden. In most cases where tax evasion exists, revenue is not declared in full, or not at all, or fake expenses are generated, to lower the taxable income.
It is thus fairly easy to recognise tax evasion, as it will be seen as tax evasion if and when a taxpayer violates the tax legislation. In almost all cases tax evasion will be regarded as criminal fraud (Prebble & Prebble, 2010:702-703).

According to Fuest and Riedel (2009:5), tax evasion can be seen as an unlawful transaction that comprises of some sort of cover-up.

Sandmo (2005:4) goes further and states that by committing tax evasion one is breaking the law. By not declaring all of one’s taxable income a person is taking part in a criminal activity and could be prosecuted by the government. A person committing tax evasion will be concerned that his activities will be revealed.

Olivier and Honiball (2008:381) stated that tax evasion is clear in theory at least and that it is illegal. According to Gcabo and Robinson (2007:361), tax evasion is based on the principle of not revealing all information to the applicable tax authority in the effort of evading tax.

2.2.2 Tax Avoidance

According to Prebble and Prebble (2010:702-703), tax avoidance is not against the law. It is derived when a taxpayer helps himself to lawful opportunities in order to lower his tax burden.

Penalties are not usually imposed on taxpayers who avoid tax as they act in a legitimate way with regard to the tax legislation, not even in the event of being detected by the Inland Revenue Service (IRS). However, this does not mean that the IRS will just sit back and watch as taxpayers avoid tax, they might even impose penalties to stop certain tax avoidance in particular (Prebble & Prebble, 2010:702-703).

According to Fuest and Riedel (2009:5), tax avoidance can be seen as actions utilizing loopholes in the tax legislation, but not deemed to be unlawful.
Tax avoidance according to Sandmo (2005:4) is within the limits of the prescribed legislation. It is achieved by finding loopholes in the legislation and taking advantage of it.

Olivier and Honiball (2008:381) stated that tax avoidance is in theory legally permitted.

2.3 DISCUSSION

There is unfortunately no formal definition for tax evasion or tax avoidance in RSA statutory law.

Taking into account the definition of tax evasion, not declaring all of one’s revenue will be illegal and regarded as tax evasion. Revenue generated from monetary assets held in a foreign country and not disclosed to one’s local IRS will also constitute tax evasion. Needless to say, forging transactions to lessen one’s tax burden will be deemed to be tax evasion (Fuest & Riedel, 2009:5).

Over time many judges have argued between the legal distinction of tax evasion and tax avoidance. Numerous judges came to the conclusion that tax evasion is morally wrong due to tax evasion being seen as unlawful. However, as tax avoidance is seen to be legal, no problem exists morally according to the judges (Prebble & Prebble, 2010:744).

Realistically it does not make sense to compare legal interpretations to moral interpretations as it will ultimately lead to a misunderstanding of the difference between tax evasion and tax avoidance. By simply stating that a taxpayer’s actions are lawful does not automatically make his actions morally acceptable (Prebble & Prebble, 2010:744).

Take an authorised cigarette dealer for example; although it is within his lawful right to sell the cigarettes, one cannot make the assumption that since it is legal to sell the cigarettes, it is also morally correct to do so. Whether or not one’s actions are lawful is not the only criteria morality is based on, numerous other grounds exist as to why tax evasion is immoral (Prebble & Prebble, 2010:744).
2.4 CONCLUSION

According to Prebble and Prebble (2010:715-716), a huge gap exists between unlawfully evading tax and lawfully avoiding tax by obtaining a tax relief for contributing to a certain charity. One would not need too much convincing that contributing to a charity is morally correct, whereas intentional tax evasion is not morally correct.

This means that barrier between moral and immoral is situated someplace between the abovementioned examples. Tax avoidance is found between allowable tax easing and tax evasion. Accordingly quite a few potential points arise as to where the moral line might be drawn. It might be right down the middle between tax avoidance and tax evasion or it might be between allowable tax easing and tax avoidance. This point on the line could also be found within tax avoidance itself, meaning that in certain cases tax avoidance will be deemed to be morally correct, but in other cases immoral. The problem is, where does one draw the line as to what is and what is not acceptable (Prebble & Prebble, 2010:715-716)?

When looking at the definitions, tax evasion is defined as being unlawful and tax avoidance is defined as being within the tax legislation. One could argue that the line that separates tax evasion from tax avoidance morally corresponds to the same line that separates them legally (Prebble & Prebble, 2010:715-716).

Prebble and Prebble (2010:744) summed it up perfectly by stating the following: “The difference between evasion and avoidance is a matter of law, not of relevant fact.”

Now that the difference between tax evasion and tax avoidance has been established the focus can be turned to the factors that influence tax evasion in developed and developing countries.
3 FACTORS INFLUENCING TAX EVASION IN DEVELOPED COUNTRIES

As stated by Bird and Oldman (in Oberholzer & Stack, 2009:739), tax evasion is an evident truth that occurs in all nations. This means that tax evasion is present in developed as well as developing countries. This chapter will commence with a discussion on tax evasion in the USA.

3.1 UNITED STATES OF AMERICA

3.1.1 Introduction

The principles of tax evasion in themselves make it difficult to obtain reasons as to why taxpayers evade tax. The chance of a taxpayer honestly answering a tax evasion questionnaire, with regards to having evaded tax, is very slim. As there is a risk of being criminally prosecuted if caught evading tax, the sensitivity thereof makes a taxpayer think twice before admitting to evading tax. What makes it even more difficult is the vague line between tax evasion and tax avoidance in USA tax legislation (Baumeister in Slemrod, 2007:25-26).

In 2001 the tax gap was determined to be US-$ 345 billion by the National Research Program. They managed to recover an amount of US-$ 55 billion, lowering the tax gap to US-$ 290 billion (Fuest & Riedel, 2009:26), through a combination of collection of late payments and numerous tax audits conducted.

According to Slemrod (2007:29), personal income tax could account for up to two-thirds of all revenue not reported. Looking more closely, one can see that the exaggeration of one’s expenses only contributes 20% towards the underreporting of personal tax; whereas the understatement of revenue contributes to 80% of the personal tax not being declared.
The USA is divided into the following tax authorities: Firstly there is the federal government, secondly the 50 states together with the District of Columbia, then follow the local counties and municipalities (The Economist Intelligence Unit, 2008:1).

The reasons for taxation being difficult in the USA could mainly be that there are no standardised rules in determining the taxable income of a taxpayer or how to divide the taxable income between the different tax authorities named above. There is almost no way a person starting up a new multi-state company will succeed without the guidance of a tax lawyer. (The Economist Intelligence Unit, 2008:1).

Taxes are levied on all income acquired for taxpayers of the USA from other countries in the world. Taxes are also levied on foreign taxpayers who are in actual fact connected to a company in the USA (The Economist Intelligence Unit, 2008:2).

By law a company is only seen as a resident in the specific state if it is registered there. If one looks at a company registered in Delaware and a company registered in Germany with both of them conducting business in New York, both of them will be seen as a non-resident in the state of New York. This interstate business could lead to a company being excessively taxed due to the company being taxed more than once, or in some cases under-taxed (The Economist Intelligence Unit, 2008:3).

On several occasions of financial hardship (for example the aftermath caused by the destructive Hurricane Katrina in 2005 or the tragic event of the September 11th terror attacks in 2001), tax reliefs (for example accelerated depreciation) are given to taxpayers by the government in order to help them obtain new capital goods (The Economist Intelligence Unit, 2008:5).

Keeping an eye on the IRS’ website will also help to inform taxpayers that such tax reliefs have been placed into effect, as was the case in the 2008 tax year. It was announced at the start of the USA recession that taxpayers could make use of accelerated depreciation as well as claim higher expenses than normal. However, it goes without saying that the services of a professional tax consultant are without a doubt essential (The Economist Intelligence Unit, 2008:5).
Throughout the USA value-added tax (VAT) is not levied at the same rate or method. The states and municipalities in most cases determine how VAT is calculated. As for Oregon, New Hampshire, Montana, Delaware and Alaska no VAT is levied. In all of these five states, except for Alaska, there is also no municipal VAT levied (The Economist Intelligence Unit, 2008:10).

This self-regulating tax authority for each of the 50 states and municipalities result in a confusing web of taxes, made up of all sorts of different taxes like stamp and property taxes (The Economist Intelligence Unit, 2008:11).

3.1.2 Factors influencing tax evasion

There are several factors that could influence the taxpayer's decision to evade tax or to comply with tax legislation in the USA. In the following paragraphs an overview of these factors is given.

3.1.2.1 Status of Individual

Feinstein (1991:15) stated that a younger age tends to increase tax evasion. In other words the younger taxpayer would take more chances in tax evasion compared to the older taxpayer.

This was backed up by Richardson (2006:152), who stated that younger taxpayers are more likely to live on the edge and are not easily scared by the punishment imposed by the tax authority, should one get caught evading tax. Meaning that the older the taxpayer becomes, the less the taxpayer is willing to take the risk of getting caught.

Another possible reason for older taxpayers to be less likely to evade tax could be due to the additional exemption for over 65 years old taxpayers (Feinstein, 1991:15). The additional exemption could lower the tax amount payable or even exempt the taxpayer from paying taxes completely, making it much more acceptable for the taxpayer.
According to Baldry (in Slemrod, 2007:31), in general men tend to evade tax more than women.

Torgler and Valev (2010:5) supported Baldry’s statement, as according to them, women are more dependent and compliant than men. Women, as opposed to men, will more often than not agree that tax fraud and tax evasion are not justified and thus wrong.

Torgler and Valev (2010:5) took this further and stated that not only does gender play a role in whether to evade tax or not, but as studies done by Andreoni and Vesterlund (2001:294) show, gender also influences things like negotiating, family decision making and making a contribution or giving to charity.

Feinstein (1991:15) made a very interesting observation namely that married individuals are more likely to evade tax than unmarried people. This could be attributed to the greater financial burden two people carry in a household.

Clotfelter (1983:354) came to the conclusion that tax evasion will be more likely if the taxpayer lives among other people who evade taxes. If one is surrounded by honest law obeying people who pay their taxes promptly, one might also be compelled to comply. The phrase “monkey sees monkey does” comes to mind.

According to Feinstein (1991:15), tax evasion increases with the level of the taxpayer’s income.

The level of income of the taxpayer also seems to have an effect on the decision making process of the taxpayer. Middle-income taxpayers usually tend to be compliant with the tax laws, compared to the lower income and higher income taxpayers that are relatively reluctant to pay their taxes (Wille & Woodbury in Richardson, 2006:152).

Christian (quoted by Slemrod, 2007:30) mentioned that the ‘rich’ are likely to reduce their taxes through legal avoidance, for example tax shelters, compared to people with a lower income who will try more out-and-out evasion.
Education can be divided into two categories namely broad education and education in taxation. There is a negative association between broad education and the level of tax evasion. Education in taxation, however, is likely to increase the level of tax evasion as the taxpayer could obtain the knowledge to evade tax successfully (Jackson & Milliron in Richardson, 2006:152).

Another factor is the source of income, where the opportunity for tax evasion is the greatest in the agriculture and self-employment trades. Taxpayers who are dependent on wages or salaries will take fewer chances with tax evasion since they will be subject to withholding of taxation (Wallschutzky in Richardson, 2006:152-153).

It is thus easier for people to under declare their taxable income if they are self-employed or involved in farming activities. This is supported by Schmölder (in Richardson, 2006:152) who stated that if farming and informal trading are the main activities in a country, taxation on the proceeds would not work.

According to Slemrod (2007:29), this could be explained as the taxes on salaries and wages, as per law, need to be reported by the employer to the IRS, and the employer also needs to withhold such taxes. Although there is no withholding tax on interest and dividends, the person responsible for the payment of the interest or dividends also needs to report it to the IRS.

In the same study by the USA Department of Treasury, it showed that self-employed businesses are much more likely not to comply with all the tax legislation, as there is no way to determine their real income. Not taking revenue from farming activities into account, about 57% of all other self-employed revenue is not reported. This came to be around US-$68 billion and accordingly accounted for more than a third of the tax not reported by individuals in 2001 (Slemrod, 2007:29).

3.1.2.2 Inland Revenue Service

Allingham and Sandmo (in Dell’Anno, 2009:995) stated that the taxpayer’s choice to comply also depends on the possibility that the illegal activity will be discovered and
accordingly punished, weighed up against the expected advantage the taxpayer stands to obtain from it.

Slemrod (2007:36) stated that the most encouraging factors influencing tax evasion is the probability of getting caught and the severity of the penalties imposed for evading tax.

Allingham and Sandmo (in Dell'Anno 2009:995) found in their study that normally the decision to evade tax or not will depend on what the taxpayer stands to gain, weighted up against what the taxpayer might lose if he gets caught.

Feinstein (quoted by Slemrod, 2007:37) said that the marginal tax rates have a negative impact on tax compliance. This means that the higher the marginal tax rate becomes the less taxpayers are willing to comply with paying taxes.

This was supported by Lin and Yang (2001:1836) who stated that taxpayers respond negatively to tax rates. The Economist (quoted by Lin & Yang, 2001:1828) stated that the best way to lessen tax evasion is by lowering the tax rates.

According to Jackson and Milliron (in Richardson, 2006:153), tax systems become more and more complex with time and this is one of the most significant determinants of tax evasion.

Clotfelter (1983:368) stated that the presence of various tax forms and the intricacy of the tax system are related, with more underreporting in non-business returns.

3.1.2.3 Psychological factors

The fairness of taxes levied on a taxpayer is normally negatively associated with tax evasion (Jackson & Milliron in Richardson, 2006:153). This means that if the taxpayer feels that he or she is being unfairly taxed, it may lead to tax evasion. It is very important to understand the perceptions of the taxpayer, which in turn may depend on the behaviour of other people (Sandmo, 2005:26).
Upon investigation it was found that because of a higher social norm, citizens in the USA were much more compliant to tax laws than citizens in Spain (Alm & Torgler, 2006:225).

The ethics of tax evasion, tax morale and religion are factors which go hand-in-hand, and can affect the taxpayer’s decision. McGee (2006:17) mentioned three different views on the ethics of tax evasion. The first view is that it is never ethical to evade tax. The second view, in contradiction to the first view, is that it is always ethical or never unethical to evade tax. The third and final view is that tax evasion might be ethical but it depends solely on the conditions and facts.

A person may decide to avoid tax if he or she thinks that the government policy is incorrect (Andreoni in Slemrod, 2007:39). According to Dell’Anno (2009:995), the government’s efforts and success to maintain a low unemployment and inflation rate will help in the way taxpayers view the government’s contribution to the community and accordingly lower tax evasion.

Confidence in a country’s government has a positive influence on tax compliance. This fact was proven in studies conducted in the USA and in Germany (Slemrod, 2007:40). A study done by Hanousek and Palda (in Slemrod, 2007:40) confirmed it, as they found that a taxpayer will more likely commit tax evasion if the taxpayer believes that the government’s services are below average.

3.1.2.4 Summary

As pointed out by the The Economist Intelligence Unit (2008:1), taxpayers conducting business in the USA and especially taxpayers conducting business over multiple states have to double check that they comply fully with the tax legislation and the use of a tax expert could prove invaluable.

Although it is clear that the status of the individual taxpayer has a significant influence on the reasons for a taxpayer to commit tax evasion, some of the factors which make up the status of the individual have a greater influence than others.
Factors such as the age of the taxpayer, gender, marital status, compliant peers, education and income level are factors that have some influence. However, it is the source of the income that has the most influence on the taxpayer’s decision to evade tax.

One might be able to defend one’s decision to evade tax by means of religion. However, like in the case of Yusuf not all Muslim scholars agree with his statements on when it is acceptable to evade tax. In the case of Fjeldstad and Semboja (2001:2065) they did not find any significant differences between the reasons why Muslims and Christians will evade paying their taxes.

In a study done by the USA Department of Treasury in 2001 it came to light that a mere one percent of the salaries and wages were not declared. Furthermore, about only four percent of taxable interest and dividends were not declared. These results, however, do not include taxpayers who failed to submit a return at all (Slemrod, 2007:29).

When it comes to the IRS, the most significant factor with regard to tax evasion is most probably the likelihood of getting caught and the penalties that go hand in hand with it. If a taxpayer believes that the chances of him being caught out and severely punished due to tax evasion, he will be encouraged to comply with tax legislation.

Tax morale, as pointed out by Alm and Torgler (2006:241), could easily be regarded as the most influential factor when it comes to tax evasion. This tax morale is clearly visible in the feelings taxpayers have towards governments that inappropriately utilise their taxes.

This is shown by the following example of war by Daunton (quoted by Slemrod, 2007:39): The expenditures on warfare may be endured during a patriotic period, but are discarded during other periods. Only when citizens believe that the government will act in their best interest and that procedures are just, will they be compliant in paying taxes (Levi in Slemrod, 2007:40).
3.2 EUROPEAN COUNTRIES WITH A FOCUS ON SWITZERLAND

Going to the other side of the world, namely Europe and in particular Switzerland, the factors influencing tax evasion are discussed below.

3.2.1 Introduction

Lustenberger (1992:1) stated that Switzerland’s unique tax climate allow them to outperform other nations in attracting major investors.

Switzerland is divided into 26 cantons or states, where each levies its own taxes. These taxes, together with the municipal taxes levied, comprise of the majority of taxes levied in Switzerland. The federal government currently also levies corporation tax at a rate of nine percent (8.5%) and VAT at a rate of eight percent (The Economist Intelligence Unit, 2011:2).

Before 2009, there was a distinct difference between tax evasion and tax fraud in Switzerland, making it hard, especially for foreign governments, to obtain information with regard to potential tax evaders. Tax evasion was not seen as a crime, whereas tax fraud was seen as a criminal offence. Tax fraud meant that someone was deliberately seeking to evade taxes. With this in mind, as per the age-old tradition of banking secrecy in Switzerland, this made it ideal for a taxpayer to hide undeclared income in a Swiss bank, as the bank had no obligation to disclose any information to anyone unless tax fraud could be proven (Jensen, 2010:1827).

In 2009 the Swiss did away with the difference between tax evasion and tax fraud, making it easier for foreign governments to chase down potential tax evaders. Nevertheless, the Swiss banks still required the precise name, address and account number of the person that was pursued (Jensen, 2010:1814).

Giving in to ongoing pressure, the Finance Minister of Switzerland announced in February 2011 that Switzerland would assist foreign governments more in exposing tax evaders
making use of Swiss bank accounts. They will now supply the required information even if they only receive the bank account number (Anon, 2011).

3.2.2 Factors influencing tax evasion

In Switzerland, numerous factors can influence the taxpayer’s decision to evade tax or to comply with tax legislation. An overview of these factors is given in the following paragraphs.

3.2.2.1 Status of Individual

Torgler (2004:248) showed in his study that a taxpayer aged between 20 and 29 is more likely to evade tax than a taxpayer older than 65 years. This was confirmed in the study by Torgler and Schaltegger (2006:408), where they found that age plays a vital role as to whether a taxpayer will evade tax or not. They came to the conclusion that the older the taxpayer gets, the less likely he will be to commit tax evasion.

In a study conducted by Torgler (2002:55), he found that females are more likely to comply with tax legislation than males. The study showed that 14% more females than males declared that tax evasion is never acceptable. This was also confirmed in the study by Torgler and Schaltegger (2006:409), where it was found that females have greater tax ethics than males.

Torgler (2002:55) found that married people are more tax compliant than a single person. According to Torgler and Schaltegger (2006:409) married taxpayers are more aware of how they are seen in the community and more dedicated to fit in compared to taxpayers who are not married. This in turn provides for higher tax morale in taxpayers who are married.

Education, according to Torgler (2002:55), has no major effect on the taxpayer’s decision to evade tax or not.
Taxpayers who are dependent on wages or salaries will take fewer chances with tax evasion since they will be subject to the withholding of taxation. Thus it is easier for people to under declare their taxable income if they are self-employed or involved in farming activities (Engström & Holmlund, 2009:2419).

3.2.2.2 Inland Revenue Service

According to Frey and Feld (2002:23), if the IRS has a civil relationship with the taxpayer as compared to a controlling relationship, the morale of the taxpayer will be boosted and will lead to a decline in tax evasion. Torgler and Schaltegger (2006:411) showed that the taxpayer who receives individual attention from the IRS and is treated with respect is more likely to comply to tax legislation as opposed to taxpayers who do not receive individual attention or are not treated with the necessary respect.

3.2.2.3 Psychological factors

In the study conducted by Torgler and Schaltegger (2006:402) they found that the percentage of taxpayers that deem tax evasion as immoral dropped from 63.8% in 1989 to 53.5% in 1996.

Torgler and Schaltegger (2006:410) further stated that taxpayers who are religious are more likely to comply with tax legislation than taxpayers who are not religious at all. The study simply took religion into consideration and no split was done between different types of religions.

According to Bosco and Mittone (1997:297), the choice of paying tax depends on the preferences of the taxpayer. This could be the taxpayer’s attitude towards taking risks or the return that could be derived from the risk taken. Another possibility could be the taxpayer’s ethical beliefs.

Torgler and Schaltegger (2006:411) found that the trust a taxpayer has in his government will influence his decision to evade tax or not. The more trust there is between the taxpayer and the government the higher the tax compliance.
3.2.2.4 Summary

According to Jensen (2010:1827), Switzerland’s unique tax climate and its age-old tradition of banking secrecy makes Switzerland an ideal tax haven.

However, this could soon be seen as something from the past, as it was announced in February 2011 that Switzerland would no longer protect foreign tax evaders by this tradition of banking secrecy, and would assist foreign governments without all the prior restrictions (Anon, 2011).

As pointed out by Torgler and Schaltegger (2006:408), age plays a vital role when it comes to whether or not a taxpayer will evade tax. They came to the conclusion that the older a taxpayer becomes, the less he would consider evading tax.

Even though age plays a vital role, when looking at the status of the individual the factor influencing tax evasion the most was pointed out by Engström and Holmlund (2009:2428-2429). According to them, tax evasion is most likely to exist among the “self-employed who run unincorporated businesses.”

According to Torgler and Schaltegger (2006:411) the more individual attention a taxpayer receives from the IRS, the more likely the taxpayer would be to comply with the tax legislation.

Trust between the government and the taxpayer seems to be a determining factor when it comes to evading tax or not (Torgler & Schaltegger, 2006:411). This trust between the taxpayer and government is obtained by the government by utilising the taxpayer’s taxes paid in a way the taxpayer deems fit.

3.3 SUMMARY OF DEVELOPED COUNTRIES

As the USA Department of Treasury pointed out in 2001, tax evasion in the USA amounted to about 14% of all USA taxes, which included all the federal taxes and all the personal taxes (Slemrod, 2007:45).
The individual taxpayer is influenced by numerous factors ranging from the taxpayer’s age, gender, marital status, education, level of income, religion and the marginal tax rate. This taken into account, three factors seem to influence the decision to evade tax or not more than the other factors.

Firstly the punishment imposed by the IRS in most cases serves as a deterrent when it comes to evading tax. The harsher the penalties imposed by the IRS on taxpayers found guilty of evading tax, the higher the compliance rate tends to get. This said, if the possibility of getting caught is low, the penalties imposed will not have the desired affect and will thus reduce the influence it has on the taxpayer’s decision to evade tax or not.

Secondly the source from which the taxpayer derives his income plays a vital role in the decision to evade tax. As taxpayers whose income is purely derived from salaries or wages are bound by withholding tax, which legislations impose on employers, there is almost no gap to commit tax evasion. This was highlighted by Slemrod (2007:29) who stated that only one percent of income from salaries and wages was not declared in 2001 in the USA.

Thirdly probably one of the most significant factors influencing tax evasion is the attitude of the taxpayer towards the government. If the government spends the taxpayer’s money towards improving the taxpayer’s life and looking after him, for example making the taxpayer feel safe or keeping the hospitals and schools in good condition, the taxpayer will be a whole lot more committed in complying with tax legislation.
4 FACTORS INFLUENCING TAX EVASION IN DEVELOPING COUNTRIES

Now that the factors influencing developed countries have been identified, the factors in developing countries can be analysed, starting with countries in the Sub-Saharan Africa, specifically RSA.

4.1 SUB-SAHARAN COUNTRIES WITH A FOCUS ON SOUTH AFRICA

4.1.1 Introduction

In 2001 RSA changed from a source based tax system to a residence based tax system. This meant that all passive revenue received (like interest, rent and royalties) from a foreign source is now taxed in RSA. This also meant that a RSA resident will now be taxed on all income whether it is generated from RSA or not (The Economist Intelligence Unit, 2009:1).

According to The Economist Intelligence Unit (2009:1), in the past the South African tax morale has been on the down side, but SARS has recently increased their productiveness, raising the taxpayers’ tax morale.

SARS committed to the global fight against tax fraud by including in all of their tax treaties a provision for tax information, with one exception, the treaty signed with Switzerland did not contain such provision (The Economist Intelligence Unit, 2009:5).

4.1.2 Factors influencing tax evasion

Many factors can influence the taxpayer's decision to evade or to comply with tax legislation in Sub-Saharan Countries, with emphasis on South Africa. In the following paragraphs an overview of these factors is given.
4.1.2.1 Status of Individual

According to Oberholzer (2008b:164), taxpayers older than 60 are much more likely to comply with tax legislation than younger taxpayers who tend to evade tax more often.

Even though Webley et al. (in Oberholzer, 2008b:164) found that women are more tax compliant than men, Oberholzer (2008b:164) found that there is no definitive distinction as to whether men evade more tax than women in South Africa.

Compliant peers play a major role in the decision to evade tax. Individuals like to compare their situations with other groups in similar situations (Gcabo & Robinson, 2007:362).

Compliance behaviour and attitudes of taxpayers can be affected by the actions of their reference groups, such as family, neighbours and associates. This means that if people within the reference group evade tax, the specific taxpayer’s will to comply may become weaker (Fjeldstad & Semboja, 2001:2061).

According to Oberholzer (2008b:164), taxpayers who have completed school and/or have a tertiary education are less likely to evade tax in contrast to taxpayers who have not completed school. Oberholzer (2008b:164) goes on to state that this could be attributed to the better educated taxpayers knowing the consequences they will encounter if they get caught out evading tax.

4.1.2.2 Inland Revenue Service

The probability of detection and penalties imposed are significant factors that may lead to tax evasion (Cummings et al., 2009:456). Few people will evade taxes if the detection of the evasion is more likely and the penalties more severe (Fjeldstad & Semboja, 2001:2060).

This was confirmed by Gcabo and Robinson (2007:362), who stated that the probability of detection and penalties imposed were identified as a significant factor in the decision to evade tax or not.
In the study done by Cummings et al. (2009:450) where tax evasion between taxpayers from RSA and taxpayers from Botswana were compared, the marginal rate in RSA was noted to be much higher at 45% compared to the 25% of Botswana at that stage. After analysing a few factors, they came to the conclusion that taxpayers from RSA were much keener to evade tax compared to taxpayers from Botswana.

According to The Economist Intelligence Unit (2009:1), SARS is acquiring more and more respect and exposure due to their new no-tolerance policy, especially where people or businesses with a high public status are taken to court. Numerous tools are available to SARS’ audit divisions to boost its revenue collection and to point out regions where suspicious activities might be taking place, for example call centres and other areas with computerised equipment.

Taxpayers who have in the past conferred with SARS officials are more likely to comply with tax legislation than taxpayers who have never met with SARS officials. This just goes to show that personal contact has an encouraging effect on taxpayers in their decision not to evade tax. (Oberholzer, 2008b:182).

Taking the personal contact a step further, taxpayers who are of the impression that SARS officials are competent and knowledgeable are less likely to evade tax as opposed to taxpayers who believe otherwise. (Oberholzer, 2008b:182).

4.1.2.3 Psychological factors

The attitude as well as the personality can explain the behaviour of the taxpayer (Gcabo & Robinson, 2007:362).

According to Alm and Martinez-Vazquez (in Abrie and Doussy, 2006:4), the social norms of an individual play a vital role in the decision to comply with the tax legislation in RSA. Taxpayers who expect a profit would choose to avoid risks compared to those who expect a loss, who will become risk takers (Kahneman & Tversky in Gcabo & Robinson, 2007:363).
The government plays an important role in the attitude of the taxpayer. Once reminded of the benefits that they receive from government, citizens are more willing to pay taxes (Peters in Oberholzer, 2008a:65).

Oberholzer (2008a:66) stated that most of the respondents in the study felt that it is fair to pay taxes. However, the respondents unanimously agreed that corruption and careless spending by government is high, making it hard to justify paying taxes.

4.1.2.4 Summary

People tend to follow the masses and tax evasion, not being any different in this regard, reflects the same tendency. This translates into a situation where if one surrounds oneself with people who tend to evade tax, one will most likely follow the same trend and also evade tax (Fjeldstad & Semboja, 2001:2061).

The implementation of harsh penalties could backfire on the government as it could lead to a situation where bribery and corruption are more widespread and which in return will lead to more tax evasion (Cummings et al., 2009:447).

SARS officials are more than likely to play a vital role in the taxpayer’s decision to evade tax or not, as it goes to show that personal contact between the taxpayer and SARS officials tends to make the taxpayer more tax compliant (Oberholzer, 2008b:182).

From the taxpayer’s point of view, as long as the government applies the taxpayer’s money properly, the majority of the tax payers felt positive about paying their taxes (Oberholzer, 2008a:52).

According to Gcabo and Robinson (2007:368), one may say that RSA has high tax compliance rate when compared to other developing countries.
4.2 LATIN AMERICAN COUNTRIES WITH A FOCUS ON BRAZIL

The factors influencing tax evasion in Latin American countries and in particular Brazil is next to be analysed.

4.2.1 Introduction

Brazil's tax system is intricate to understand; it consists of a vast number of different taxes, namely: income tax, VAT on goods manufactured, VAT on monetary transactions and three types of taxes on turnover (The Economist Intelligence Unit 2007:1).

According to the The Economist Intelligence Unit (2007:1), Brazil relies heavily on tax proceeds due to their huge outstanding debts and rigid economic policy. The improvement of tax administration led to an increase in tax collection over time. In 2006, tax collected grew by 10.5% from that in 2005. Tax evasion is not restricted to Brazil only but is seen as one of the most worrying problems in all of the Latin American countries (Alm & Martinez-Vazquez, 2007:55).

In a survey conducted by the World Bank's Enterprise Surveys in 2005/2006 it showed that on average a normal entity, in terms of tax purposes, will declare only about 75% of their actual income. According to the survey Brazil was not far behind the global average, in that they declare about 66% of their actual income (Alm & Martinez-Vazquez, 2007:10).

4.2.2 Factors influencing tax evasion

In Latin American countries, with focus on Brazil, several factors can influence the taxpayer’s decision to evade or to comply with tax legislation. An overview of these factors is given in the following paragraphs.

4.2.2.1 Status of Individual

According to Torgler (2005:148), the older one becomes the more tax compliant one starts to get.
According to Aguirre and Rocha (2010:18), it seems that the older and the more educated one becomes the less likely it becomes that one will evade tax. Taxpayers older than 30 years of age are significantly less likely to evade tax than taxpayers between the ages of 16 to 29.

It seems that married taxpayers are more tax compliant than taxpayers who are single. This not only includes taxpayers who are married in the true sense of the law but also taxpayers who live together as life partners (Aguirre & Rocha 2010:19).

Torgler (2005:148) went one step further by stating that married taxpayers, and in particular reference to females, are more tax compliant than single, male taxpayers.

Taxpayers who know of, or heard of family or friends or even work colleagues that have successfully evaded tax are themselves less reluctant to comply. The opposite is also applicable - taxpayers who are under the impression that other taxpayers do not evade tax, will tend to be more compliant (Torgler 2005:153).

This was also confirmed by Alm and Martinez-Vazquez (2007:49), who stated that if taxpayers are surrounded by other careless tax evaders they will also tend to evade tax themselves.

Aguirre and Rocha (2010:19) stated that taxpayers who are self-employed are much more reluctant to pay taxes as to salaried taxpayers.

4.2.2.2 Inland Revenue Service

In reply to reasons why they think most taxpayers evade tax, 46% of the taxpayers that participated in the survey in Latin America, argued that it is because of the tax rates being too high (Torgler 2005:138).

According to Torgler (2005:134), problems in developing countries (for example a lack of good tax administration) resulted in the collection of a much lower tax revenue in those countries (like Brazil), as to that of developing countries with a superior tax administration.
Tax administration is seen as a vital part of a country’s tax policy to reduce tax evasion, especially in the case of developing countries. In one case in Peru, the tax administration was corrupt to such an extent that the whole administration had to be closed down by the government, and be replaced entirely (Torgler 2005:138).

Self-employed taxpayers are by themselves not very tax compliant, but the addition of a troubling tax administration to this picture further intensifies the difficulty of monitoring self-employed taxpayers (Torgler 2005:144).

Bergman (in Alm & Martinez-Vazquez, 2007:9) clearly pointed out that not only tax administration is to blame for tax evasion. Comparing Argentina to Chile, having more or less the same tax administration, it came to light that Argentina’s tax evasion is almost twice that of Chile.

Tax amnesty can on the one hand help to clear up some tax evasion by giving taxpayers the chance to settle previous outstanding taxes without receiving a penalty, as it would have normally incurred. On the other hand tax amnesty could make a taxpayer, who fully complies with the tax legislation, less compliant as he resents the tax amnesty given to these tax evaders. It might also be that they feel the amnesty will come along again and that will allow them to make use of it, too (Alm & Martinez-Vazquez, 2007:47).

4.2.2.3 Psychological factors

According to Aguirre and Rocha (2010:19), tax morale is not influenced by the faith of the taxpayer. Aguirre and Rocha (2010:19) went on to state that whether the taxpayer is religious or not at all, has no impact on the decision to evade tax or not.

According to Aguirre and Rocha (2010:18), the manner in which the country’s government utilises the revenue collected is quite sensitive. If the taxpayers are under the impression that the government is spending their taxes in a good manner, their tax morale will drastically increase.
This is confirmed by Torgler (2005:137), who states that a positive performance by the government will most likely influence the taxpayers’ attitude towards tax compliance in a positive way, thus making them less likely to evade tax.

In a study conducted by Torgler (2005:145), it was found that the percentage of taxpayers in Brazil felt certain factors to be the reason for people evading taxes, as seen in table 2.

Table 2: Reasons for Brazilians to evade tax

<table>
<thead>
<tr>
<th>Reason for evading tax</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of honesty</td>
<td>45.50%</td>
</tr>
<tr>
<td>Nationals are quick witted and sly</td>
<td>31.80%</td>
</tr>
<tr>
<td>They do not see the point in paying taxes</td>
<td>25.90%</td>
</tr>
<tr>
<td>Lack of civic conscience</td>
<td>32.00%</td>
</tr>
<tr>
<td>Those that evade taxes go unpunished</td>
<td>24.30%</td>
</tr>
<tr>
<td>The taxes are ill spent</td>
<td>29.70%</td>
</tr>
<tr>
<td>Taxes are too high</td>
<td>50.00%</td>
</tr>
<tr>
<td>There is corruption</td>
<td>48.90%</td>
</tr>
</tbody>
</table>

(Torgler, 2005:145)

Table 2 shows that the lack of honesty, corruption and the high tax rate are some of the major factors when it comes to the reason why people commit tax evasion. If the tax system does not seem to be fair in the eyes of the taxpayer and they feel that they are unfairly taxed, the government stands a great chance of missing out on some tax payments (Torgler 2005:153).

4.2.2.4 Summary

According to Aguirre and Rocha (2010:11), a great number of the taxpayers in Latin American countries are under the impression that tax evasion is never acceptable. This said, the majority of taxpayers in these countries do not see any problem with evading tax. Table 3, drawn up in 2005, shows the percentage of taxpayers, per Latin American country, that feel that tax evasion is never acceptable.
As pointed out by Table 3, even in the country with the highest compliance rate according to the study, El Salvador; almost half of the country considers that it is acceptable to evade tax. On the other hand there is Bolivia where almost 80% of the taxpayers consider it acceptable to evade tax.

Not only do self-employed taxpayers tend to evade tax more than taxpayers who derive their income from salaries or wages, but according to Aguirre and Rocha (2010:19) the tax morale of the self-employed taxpayers are even lower than the tax morale of taxpayers who are unemployed.
The rate at which the IRS imposes tax clearly plays a vital role in the taxpayer’s decision to evade tax. As the research of Torgler (2005:138) shows, almost 50% of the taxpayers in their survey confirmed that they evade taxes because of the high tax rate.

Taxpayers are very sensitive when it comes to the matter in which the government spends their hard earned income. If the government consults with the taxpayers and regards their inputs as important by attending to the taxpayers’ security, hospitals and schools, for example, they will be more willing to comply with tax legislation.

In the study done by Torgler (2005:138), they concluded that 32.4% of the taxpayers in the Latin American countries evade taxes because of the unsatisfying way in which the government spends their taxes. Table 4 shows the three highest and the three lowest countries stating the above:

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mexico</td>
<td>50.30%</td>
</tr>
<tr>
<td>El Salvador</td>
<td>46.40%</td>
</tr>
<tr>
<td>Ecuador</td>
<td>45.80%</td>
</tr>
<tr>
<td>Guatemala</td>
<td>20.10%</td>
</tr>
<tr>
<td>Chile</td>
<td>22.60%</td>
</tr>
<tr>
<td>Peru</td>
<td>23.20%</td>
</tr>
</tbody>
</table>

(Torgler, 2005:138)

Table 4 shows that taxpayers do not tolerate tax fraud and corruption within the government. Only positive actions from the government will convince taxpayers to comply with the tax legislation. The taxes paid could be perceived as the price paid, by the taxpayers, in exchange for a positive performance by the government (Torgler 2005:138 - 139).
4.3 SUMMARY OF DEVELOPING COUNTRIES

Although factors such as age, (in which studies have shown that older taxpayers are more compliant than younger taxpayers), has some influence in the taxpayer’s decision to evade tax or not, it is not significant (Aguirre & Rocha, 2010:18).

The attitude of a taxpayer towards paying taxes could be influenced by the people with whom the taxpayer surrounds himself. Communities in developing countries live fairly close to each other, especially in rural communities, and rely on each other. The probability that a taxpayer who is in constant contact with non-compliant taxpayer will also evade taxes is very good (Fjeldstad & Semboja, 2001:2061).

Taxpayers in developing countries are not associated with being the wealthiest in the world. A high marginal tax rate could influence the taxpayer’s decision to evade tax as was the case in the study done by Cummings et al. (2009:450). The study showed that taxpayers from RSA were more likely to evade tax than taxpayers from Botswana as the marginal tax rate was 20% higher in RSA than in Botswana. In Brazil 50% of the taxpayers felt that the reason for tax evasion is the high tax rate.

If the probability of detection is likely it will usually reduce the quantity of taxpayers committing tax evasion. However, in the case of developing countries, the tax administration, which is also responsible for detecting tax evasion, is not functioning as it should, making detection less likely. Taking this into consideration, no amount of penalties imposed by the IRS will have a significant effect on the taxpayers’ decision to evade tax or not, as these penalties cannot be imposed if they are not caught.

According to Gcabo and Robinson (2007:357), SARS has, since its incorporation in 1997, had an extraordinarily successful record in collection of tax. Even though the tax gap continues to exist, goals that were set by SARS for the gathering of tax have been passed on numerous occasions. This implies that South Africa’s tax management will only go forward from here, becoming even more efficient (Gcabo & Robinson, 2007:357).
One of the most significant factors influencing tax evasion in developing countries is the feelings the taxpayers have towards the government. Alm and Martinez-Vazquez (2007:49) stated that if taxpayers are not satisfied with the way their taxes are being spent by the government, they will refrain from paying their taxes. They will also be reluctant to pay tax if they are kept from important decisions or their opinions regarding important decisions are ignored.
5 CONCLUSION

5.1 INTRODUCTION

Tax evasion is a global phenomenon, and has been there from the time tax was invented and will in all likelihood be with us till the end of time (Slemrod, 2007:45).

Tax evasion will be found wherever tax is levied; it has and will most likely be around forever (Slemrod, 2007:45). The amount of influence from each one of the factors will vary from country to country and taxpayer to taxpayer. Ultimately the decision still lies with the taxpayer, who needs to live with his or her conscience if the decision was taken to evade taxes.

5.2 SUMMARY OF FACTORS

5.2.1 Status of Individual

The status of the individual is made up of the following factors: age; gender; marital status; education; level of income; compliant peers and source of income.

Each of these factors influences the taxpayer’s decision to evade tax or not in some or other way, whether it is consciously or not.

Table 5 indicates how each of these factors influences the taxpayer’s decision to evade tax, based upon the studies conducted by the authors from the different countries mentioned in Chapter 3 and 4.
Table 5: Factors with regard to the status of the individual influencing tax evasion

<table>
<thead>
<tr>
<th>Factor</th>
<th>Influence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age</td>
<td>The older a taxpayer gets, the more compliant he becomes.</td>
</tr>
<tr>
<td>Gender</td>
<td>Female taxpayers tend to comply more than males.</td>
</tr>
<tr>
<td>Married vs. Single</td>
<td>Married taxpayers tend to be more compliant than single individuals.</td>
</tr>
<tr>
<td>Education</td>
<td>Higher education tends to reduce tax evasion.</td>
</tr>
<tr>
<td>Level of income</td>
<td>Low and high income taxpayers tend to evade tax more than middle income taxpayers.</td>
</tr>
<tr>
<td>Compliant peers</td>
<td>Taxpayers, who tend to surround themselves with non-compliant taxpayers, also tend to evade tax.</td>
</tr>
<tr>
<td>Source of income</td>
<td>Taxpayers who derive their income from salaries and wages tend to be more compliant than self-employed taxpayers.</td>
</tr>
</tbody>
</table>

5.2.2 Inland Revenue Service

As the IRS is responsible for collecting the funds to keep the country running, the rate at which these funds are collected and the method used in collecting these funds will always be a matter of discussion, which in turn will also influence the taxpayer’s decision to evade tax or not.

As shown by the studies mentioned above, in the different countries, the factors involving the influence of the IRS on the taxpayer’s decision to evade tax or not consist of the following: the marginal tax rate; the possibility of detection; the penalties imposed and the effectiveness of the tax administration itself.

Table 6 points out how these factors identified influence the taxpayer’s decision to evade tax or not.
### Table 6: Factors in regards to the IRS influencing tax evasion

<table>
<thead>
<tr>
<th>Factor</th>
<th>Influence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marginal tax rate</td>
<td>The higher the tax rate the more likely tax evasion will occur.</td>
</tr>
<tr>
<td>Detection</td>
<td>The more the likelihood of detection of tax evasion the less likely tax evasion will occur.</td>
</tr>
<tr>
<td>Penalties</td>
<td>The harsher the penalties imposed on tax evasion the less likely taxpayers will commit tax evasion.</td>
</tr>
<tr>
<td>Tax administration</td>
<td>The more sufficient the tax administration, the less tax evasion will exist.</td>
</tr>
</tbody>
</table>

### 5.2.3 Psychological factors

Studies, as shown above, indicate that psychological factors play a vital role in the taxpayer’s decision to evade tax or not.

These factors consist of the following: religion; risk takers vs. non-risk takers; feelings towards the government and tax morale. Table 7 shows the effect that each of these psychological factors has on the taxpayer’s decision to evade tax or not.

### Table 7: Psychological factors influencing tax evasion

<table>
<thead>
<tr>
<th><em>factor</em></th>
<th>Influence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Religion</td>
<td>Religious taxpayers, regardless of what their religion is, tend to be more compliant. However some studies stated that it had no influence.</td>
</tr>
<tr>
<td>Risk vs. non-risk takers</td>
<td>It goes without saying that risk takers will tend to evade tax.</td>
</tr>
<tr>
<td>Feeling towards government</td>
<td>Taxpayers will tend to evade tax more if they feel they are being taxed unfairly and if government does not consult them in the tax process. Tax evasion will tend to be much higher if the taxes collected by the government are wastefully and carelessly utilised.</td>
</tr>
<tr>
<td>Tax morale</td>
<td>The higher a taxpayer’s tax morale the more likely the taxpayer will be to comply with tax legislation.</td>
</tr>
</tbody>
</table>
5.3 COMPARISON BETWEEN DEVELOPED AND DEVELOPING COUNTRIES

As Torgler (2005:134) stated, the subject of taxation in developing nations became more and more talked about in the last 20 years, as taxation in developing nations is much more challenging than taxation in developed nations.

Factors influencing tax evasion in developed countries as well as developing countries are in essence the same. However, the roles that some of these factors play differ between countries.

The source of income is a prominent factor in both developed and developing countries. Developing countries have more self-employed taxpayers and thus it makes it easier to evade tax as there is no withholding tax on this type of income.

One of the biggest factors influencing tax evasion must be the combination of dissatisfaction towards the government and the low probability of tax evasion being detected, making it the perfect reason to evade tax.

These two factors are more likely to exist in developing countries, as the government does not have the required funding to implement the necessary measures to prevent tax evasion, as well as to keep the residents of the country happy in terms of services delivered.

The factor that all taxpayers (in developed and developing countries) felt strongly about was the way in which the government spent their taxes. If they felt that the government was misappropriating the taxes paid, the taxpayers would consider evading tax much more than if the taxes paid were duly spent. Although the chances of the government ill-spending the taxes paid are higher in developing countries than developed countries, it was agreed by taxpayers all over the world that it is unacceptable.

Every taxpayer faces the decision to evade tax or comply with the tax legislation at some point in his life. Some of these factors do have a more significant impact on the decision
than others. In the end it is the taxpayer’s own choice to evade tax or not. Accordingly a taxpayer with a conscience will at least think twice before considering tax evasion.

Taking the above into consideration, for SARS to improve in their fight against tax evasion they would need to change the taxpayers’ feelings towards paying taxes. Accordingly SARS would need to convince the taxpayers that paying taxes is for their own benefit and the taxes collected will be applied properly and fairly.

5.4 CONCLUSION TO EACH FACTOR

5.4.1 Status of Individual

Even though there are a few factors that influence the taxpayer’s decision to evade tax, when looking at the status of the individual, the following two factors stand out the most:

Firstly, if the taxpayer’s friends, family or work colleagues are under the impression that it is not wrong to evade taxes, there is a good chance that it will rub off on the taxpayer as well. This is perfectly summarised by Sandmo (2005:660), who stated that the more people evade tax, the more it becomes generally acceptable and people start to see nothing wrong with evading tax.

Secondly, one of the most significant factors influencing tax evasion has to be the source from which the taxpayer’s income is derived. If the income is derived by means of a salary or wage the taxpayer is in some way limited in committing tax evasion as the employer is forced by law to withhold the tax thereon, whereas income derived from being self-employed, (like for instance farming), has none of these controls, making it much easier to get away with evading tax.

5.4.2 Inland Revenue Service

Imposing harsh penalties on taxpayers who get caught evading tax is a good way of reducing tax evasion. If the governments are not capable of controlling and detecting corruption, the penalties will not help one bit in preventing tax evasion. The detection of
tax evaders goes hand in hand with tax administration. The lack of a sufficient tax administration will result in tax evaders not being detected.

Thus if the government is not in the position to detect the tax evasion, not even the harshest penalties imposed will make a difference to statistics. As pointed out by Gcabo and Robinson (2007:362), if the tax offender just has to keep his mouth shut to avoid punishment, only his conscience could bother him.

By glancing at the marginal tax rate, it surely has a strong influence on the taxpayer’s decision to evade tax or not. As the studies have shown, tax compliance tends to reduce with an increased tax rate (Lin and Yang, 2001:1836).

This said, a high tax rate could be deemed to be acceptable by taxpayers, should the government be able to justify it and the taxpayers feel that it is fair.

5.4.3 Psychological factors

According to Lewis, Webley and Furnham (in Gcabo & Robinson, 2007:363) the paying of taxes overall is not trendy, even though taxpayers may see tax evasion as illegal and are content with the way in which government utilizes their money.

The country’s government has a major, if not the biggest, influence on the taxpayer’s decision to evade tax or not. If the government uses the tax collected mainly to improve their own situation and not that of their citizens, taxpayers will not be happy at all. After all, it is the taxpayer who works hard to earn an income and then has to pay tax over to the government thereafter, just to see it being wasted. This would influence the taxpayer to evade tax, rather than see it wasted.

The government plays such a vital role in the taxpayer’s decision to evade tax or not that even if the government does not value the taxpayers’ opinions, whether it is with regard to the tax rate or what to do with the taxes collected, it could influence the taxpayer in such a way that he feels tax evasion is acceptable.
Although some studies have shown religion to have some positive influence on the taxpayer’s decision to evade tax, others have stated that it has none whatsoever. As religion is a very sensitive subject, this study was left at that.

As Alm and Torgler (2006:241) stated, tax morale is a crucial factor when it comes to complying with tax legislation. The taxpayer’s tax morale, and whether the taxpayer sees tax evasion as ethical or not differs from person to person and therefore is driven by the taxpayer’s perception on whether or not he or she is fairly taxed. With this in mind, the feeling a taxpayer has towards the government goes hand in hand with tax morale.

5.5 FUTURE RESEARCH

A closer look as to why self-employed taxpayers in developing countries evade tax or not could help SARS in developing improved strategies to combat tax evasion.
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