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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 supportive, 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. The 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 tax authorities, with very little difference between the responses to the two types of strategy. It also appeared that there was little difference between the responses, based on the type of industry, the gender, race or level of education, but the variables of age and the size of the business indicated a more favourable perception by younger entrepreneurs and smaller businesses.

Key words: *Tax compliance; rewards; intrinsic motivation; crowding-in and crowding-out theory; controlling interventions.*

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1. INTRODUCTION

Braithwaite (2002) states that the one point on which psychologists and economists agree with in respect to motivating human behaviour, is that rewards are more useful than punishments. Feld, Frey and Torgler (2006) remark that a persistent theme in the tax compliance literature in the last few years is to move away from deterring non-compliance towards positive encouragement for compliance. They consider it highly relevant to investigate possible effects of rewards on tax compliance behaviour and thus move beyond standard theories of tax evasion. The Commonwealth Association of Tax Administrators (2006) reports on a number of positive incentives and strategies used by countries to encourage greater compliance. These include taxpayer assistance and education; providing information, tools and guidance to help taxpayers to comply; providing taxpayers with the opportunity to voluntarily disclose; involving taxpayers in consultative forums; and providing incentives or rewards for compliance.

Andreoni, Erard and Feinstein (1998) believe that finding ways to reduce tax non-compliance is of obvious importance to nations around the world. The present study presents a glimpse into why positive encouragement (as opposed to deterrence) could potentially be considered as a strategy to achieve higher levels of compliance. To this extent, the study also draws on principles for rewarding pro-social behaviour as is prevalent in the marketing environment.

Strategies of providing rewards for tax compliance are, for example, found in Sri Lanka, the Republic of South Korea, and Kenya (The Commonwealth Association of Tax Administrators, 2006: 58). An example of such a reward is privilege cards offered to consistently compliant taxpayers by the Inland Revenue Department (IRD) of Sri Lanka. These cards provide benefits such as special treatment from key government bodies like Customs and the Police Service, preferential treatment at the airport, as well as several other concessions, including leasing facilities for the purchase of vehicles and office equipment at reduced interest rates from the Peoples Bank and the Bank of Ceylon (IRD, 2012). These cards are, however, only issued to high net worth taxpayers. Other benefits such as discounts on income tax for early payment and a reduction of import tax on motor vehicles are also offered to compliant taxpayers (Gajendran, 2013). For additional examples of reward schemes currently in use by various countries to encourage tax compliance, see Bornman (2014) and Fatas, Nosenzo, Sefton and Zizzo (2015).

In South Africa at present, no reward strategy exists that offers tangible benefits to compliant taxpayers. Although the South African Revenue Service (SARS) states that ‘the vast majority of our citizens are law-abiding and share a sense of responsibility to actively participate in building our country through making their fair tax contribution’ (SARS, 2012: 4), it is questionable whether SARS is doing enough to give recognition to these voluntarily compliant taxpayers.

The aim of this article is to present and analyse the opinions of small business owners from Ekurhuleni, South Africa, on two specific reward strategies that are similar to strategies being used in Kenya and Mauritius. The article will first provide an overview of the concept of rewarding tax compliant behaviour, and then extracts principles for rewarding pro-social behaviour from literature in the marketing environment. Reward strategies used in Kenya and Mauritius will be described before the results of the survey with the small business owners are presented and discussed. The reason for selecting these two strategies is that one reward offered is of a

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

2. LITERATURE REVIEW

2.1 The concept of rewarding tax compliance

Alm, Jackson and McKee (1992) first tested the effect of positive rewards on tax compliance behaviour experimentally and found that positive incentives are effective in encouraging honest reporting. Similar results were reported by Torgler (2003) and Bazart and Pickhard (2009). A number of authors in tax compliance literature have suggested strategies for rewarding tax compliance. For example, Feld, Frey and Torgler (2006) suggest a certificate of compliance and argue that it may increase a firm's reputation and image and have a positive impact on shareholders and customers. The Cash Economy Task Force (2003) suggested a similar reward and added that the effectiveness of this approach could be enhanced by a communication programme which encourages the community to support complying businesses. Frey and Neckermann (2006) reason that rewards operate through the innate desire of human beings for recognition and status; they suggest rewards in the form of medals and prizes.

In an experimental study by Kastlunger, Muehlbacher, Kirchler and Mittone (2011) on the effect of rewards on tax compliance (with 86 students) it is reported that completely honest tax reports were more often observed in the reward conditions and that, apparently, rewards have also increased the tax payments of 'mild-evaders'.

More recently, Fatas et al. (2015) conducted an experiment comparing two audit-based deterrence mechanisms that collect fines from those found to be non-compliant. The fines are then redistributed to individuals who were either not audited or audited and found to be compliant. The first distribution mechanism does not discriminate between the un-audited and those found compliant, whereas the second targets the redistribution in favour of those found to be compliant. Their findings indicate that targeting increases compliance when paying taxes generates a social return. Their explanation supports the notion that rewarding compliance may increase the rate of compliance.

Fatas et al. (2015) also administered a treatment where those found compliant were given 'symbolic' rewards, i.e. rewards of negligible material value. Their findings from the treatment displayed no increase in compliance relative to the untargeted treatment, and they concluded 'that it is not the mere assigning of rewards, but the material incentives inherent in the rewards that improve compliance' (Fatas et al., 2015: 14). It is submitted that this finding agrees with Bornman's (2014) suggestion that an incentive to encourage tax compliance can be perceived as a reward if it is regarded as valuable by the recipient.

In another study, the positive effect of rewards on tax compliance behaviour is challenged. Fochmann and Kroll (2014) suggest that up to now, no paper analyses the effect of positive and negative perceptions regarding the use of tax revenues. Using a laboratory experiment they apply different reward mechanisms to redistribute collected tax revenue. These are: 1) an Equal-Distribution treatment where the collected tax revenue is redistributed equally among all subjects; 2) a Pro-Social-

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) conclude that ‘rewards have either no effect (for those who are rewarded) or a negative effect (for those who are not rewarded) on tax compliance behaviour’. They suggest a possible explanation in that rewards can have opposing effects on the willingness to comply with the tax law. Low trust in the tax authority on the one hand (for those likely to receive no reward) and unequal treatment of taxpayers on the other hand (as experienced in the Equal-Distribution treatment) can lead to a lower tax compliance rate in relation to the treatment of rewards.

2.1.1 *Definition of a reward for tax compliance*

Bornman (2014) defined a reward for tax compliance as an incentive administered by a tax authority with the objective of encouraging voluntary compliance. The aim of such a reward is to show appreciation and recognition for voluntarily achieving a desired outcome and as recognition of the competence of taxpayers. The reward can be of a tangible or relational nature, but should be perceived as valuable by the recipient.

2.1.2 *Rewards and motivation crowding theory*

Frey and Jegen (2001) describe motivation crowding theory as the effect of undermining or strengthening intrinsic motivation by external intervention via monetary incentives or punishments. This theory originated from the work of Titmuss and from literature on cognitive social psychology. In his book *The Gift Relationship* published in 1970, Titmuss argued that paying for blood undermines cherished social values and would therefore reduce the willingness to donate blood. Feld et al. (2006) explain that motivation crowding theory suggests that outside interventions such as deterrence, that are perceived to be controlling, tend to crowd-out intrinsic motivation, whereas actions perceived to be supporting tend to crowd-in intrinsic motivation. The study by Frey et al. (2001) can be regarded as authoritative in that it demonstrates that the crowding-out and crowding-in effects are empirically well founded and have been observed in many different areas of the economy and society.

Frey et al. (2001) distinguish three effects of external intervention on performance:

1. if the external intervention increases intrinsic motivation, crowding-in of intrinsic motivation occurs and the performance is enhanced;
2. when external intervention undermines intrinsic motivation (crowding-out), performance will deteriorate as the recipient’s marginal benefit from performing is negatively affected; and
3. in general, both of the above effects are active, so external intervention has two opposite effects on the agent’s performance; to make a decision on whether intervening is appropriate and beneficial for the principal, depends on the relative size of the two countervailing effects.

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

1. Impaired self-determination. When an external intervention is perceived as reducing self-determination, the locus of control shifts from inside to outside of the person affected. According to Rotter ((1966), as cited by Frey et al. (2001)), individuals who maintain their intrinsic motivation when forced to behave in a specific way by outside intervention, feel overjustified. The individual's own interest in performing the activity is discounted because he or she is given an external reason for doing something they would have done anyway.
2. Impaired self-esteem. Outside intervention that conveys the message that the individual's motivation is not acknowledged, effectively rejects the intrinsic motivation of the individual. When this happens, the individual feels that his or her involvement and competence is not appreciated and as a result its value degrades and leads to a reduced effort by the individual.

Frey et al. (2001) thus describe the following psychological conditions under which the crowding effect appears in a manner similar to the findings of Deci, Koestner and Ryan's analysis of the effects of rewards on intrinsic motivation (1999):

1. external interventions that are perceived as controlling by the individual will crowd out intrinsic motivation because self-determination and self-esteem is negatively affected; and
2. external interventions that are perceived as supportive will crowd in intrinsic motivation because self-esteem and self-determination are fostered.

Frey et al. (2001) found consistently strong empirical evidence for crowding-out and crowding-in from a substantial number of experimental studies done by several scholars. These studies were done on different intrinsically motivated behaviour such as volunteer work, civic duty, work effort and blood donation.

From the discussion of motivation crowding theory, it can therefore be concluded that rewards for tax compliant behaviour should be supportive (and not controlling) and should acknowledge the individual's motivation for performing the action. Costa-Font, Jofre-Bonet and Yen (2013) hypothesised that a non-controlling or supportive reward will typically be a non-monetary award. By analysing a large dataset representative of fifteen European countries containing information both on whether or not an individual had been a donor in the past and his or her preferences for monetary and non-monetary compensation for blood donation, they found that monetary incentives will crowd out intrinsically motivated behaviour, but non-monetary incentives will not. Also, a reward that is perceived as an expression of appreciation is likely to be perceived as non-controlling (Bornman, 2014). Braithwaite (2002) states that informal praise as a reward seems to have unequivocally positive effects on compliance. He reasons that praise is a gift — it is not required — therefore people will normally not interpret it as an attempt to be manipulated. He further states that the power of a reward resides in the affirmation of identities, in this case, law abiding identities.

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 as ‘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.

2.2.1 *Social marketing*

Social marketing is a term used in the marketing environment to refer to the marketing efforts by non-profit organisations and governments and usually involves seeking to influence social behaviours to benefit the target audience and society in general (Weinreich, 2006). Social marketing efforts will always convey a message: be it that change can save money or lives or can make the world a better place; or to appreciate and recognise desired behaviour (Bornman, 2014). Thus, the message becomes the reward. For example, in order to reduce a high volume of short car journeys (to reduce carbon dioxide emissions in a specific area), a local authority distributed a series of mock coupons offering ‘£3 off your next shop’, explaining that this is the average cost of a return car journey to the shops or supermarkets in the local area (including parking charges) (Dolan, Hallsworth, Halpern, King, & Vlaev, 2010). Therefore, although no physical reward was received, a message to encourage change can result in people saving money and making the world a better place (reducing carbon emissions), which in itself then becomes the reward. In a tax compliance context, a pertinent example is a television advertisement by the South African Revenue Service (SARS) depicting how the life of a specific South African has changed because government was able to provide the infrastructure and services needed (in his case a local clinic and visiting doctor who removed cataracts from his eyes and enabled him to see again (SARS, 2013)). In the advertisement SARS thanks taxpayers for making a real difference to the lives of people throughout the country by paying their taxes and for building a better South Africa.

2.2.2 *Loyalty programmes and reward cards*

Loyalty schemes are very popular. A Warc Exclusive Report (2010) indicates that in 2009 there were 1.3 billion US loyalty scheme memberships, or four for each citizen in the United States. A study by Directivity and Citrus (2013) amongst 1005 Australian citizens concluded that loyalty programmes are all about the financial rewards and benefits they offer, and that satisfaction with the reward itself is important

(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.

2.3.1 Kenya

During the Taxpayers’ Week activities such as tax clinics, tax education sessions, and community based initiatives take place, aimed at supporting the needy within society. A special taxpayers’ luncheon is also held during which awards are given to compliant taxpayers in various categories: per tax type, top regional taxpayers, and a special category of taxpayers. Awards consist of trophies and certificates and in addition, a list of names of taxpayers with a special commendation from the Commissioner General of Taxes is also released. The week is characterised by song and dance and

the speeches delivered at certain events are broadcast on national television (KRA, 2004).

Emphasis is placed on appreciation and recognition of compliant taxpayers and the role they play in the development of the country. The speech by the President of Kenya, the Hon. Uhuru Kenyatta, during the 2013 Taxpayers' Week stated: 'This occasion is important. It is the occasion when we recognise and celebrate our taxpayers for their contribution and productivity to our national development agenda, and, indeed, our civilization' (State House Kenya, 2013).

This type of strategy can be described as supportive (and not controlling) as it does not appear to be manipulative. It should not impair self-determination as the reward is not big enough to have the effect of shifting the locus of control from inside to outside the person affected. Because of the praise and recognition of taxpayers, it can also boost self-esteem by affirming the identity of taxpayers. It can thus be submitted that this reward strategy will crowd in intrinsic motivation because self-esteem and self-determination are fostered.

Although no official publication commenting on the success of this strategy in encouraging tax compliance could be found by the authors of the present article, it is assumed that the annual taxpayers' week is regarded as a worthwhile effort by the Kenya Revenue Authority as it has been held annually since 2004.

2.3.2 *Mauritius*

The Mauritian scheme entails the following: all taxpayers who file their returns electronically (e-file) participate automatically in the lottery draw and 20 prizes worth Rs 210 000 are awarded (MRA, 2012). Although the objective of the scheme is to motivate taxpayers to file their returns electronically, the Mauritius Revenue Authority states that the lottery scheme is part of a nationwide campaign to establish a tax culture in Mauritius (MRA, 2014a). Based on the definition of a reward for tax compliance, it can therefore be classified as a strategy to reward tax compliance.

The extent to which this type of reward can be perceived as supportive, is arguable. Firstly, the announcement of the strategy included no communication relating to appreciation or recognition of taxpayers and, secondly, the strategy is prescriptive — only those who e-file can qualify for the reward — which may not be perceived as strengthening taxpayers' autonomy. According to motivation crowding theory, this type of reward can crowd out intrinsic motivation because self-determination and self-esteem is negatively affected, and the motivation to comply can change from intrinsic to extrinsic (to obtain the reward).

It appears that the campaign was successful, since the MRA also introduced a VAT lucky draw scheme, whereby taxpayers who submit the details of a tax invoice received via SMS or website to the MRA can win up to Rs 50 000. The objective with this scheme is to promote the good habit of asking for a receipt and to issue VAT invoices for all sales / transactions (MRA, 2014b).

In describing similar reward strategies to small business owners from Ekurhuleni and eliciting their responses, their perceptions on the use of such strategies to reward tax compliance are investigated in this study. The following section describes the methodology applied, then the results and conclusion are presented.

3. METHODOLOGY

The opinions of small business owners from Ekurhuleni, a metropolitan area in Gauteng, South Africa, were obtained by means of a semi-structured questionnaire developed by the researchers. No database exists of all small businesses in the area and a sample frame was compiled using online sources.

Ekurhuleni is a metropolitan area with a population of approximately 3 178 470 people; this represents about 6% of South Africa's population. The area includes nine towns and 13 townships (towns where, traditionally, mainly black South Africans live). According to the Ekurhuleni Metropolitan Municipality (EMM) the area contributes approximately 18% to the total economic output of the Gauteng province, is home to South Africa's biggest international airport and is considered to be an economically active area with a large diversity of industries (EMM, 2013). Because of the large concentration of small businesses in a relatively small area (1 975 square kilometres), the diversity in type of industries, race and income levels, and the location of Ekurhuleni in the province of Gauteng, the most economically active province in South Africa, the Ekurhuleni Metropolitan area was considered to be suitable for selecting respondents for the present study.

3.1 Survey instrument

Two scenarios of possible rewards by the South African Revenue Service were included in a survey instrument administered face to face to participants with the help of fieldworkers during November 2013. The scenarios were presented to respondents in the form of vignettes or short descriptions of hypothetical situations followed by a non-standardised questionnaire. Kirchler and Wahl (2010) reason that by using fictitious cases for assessing attitudes towards tax evasion, the problem of social desirability could be reduced and respondents will be less hesitant to reveal their true attitude toward paying taxes. Opinions of respondents on certain statements pertaining to these hypothetical strategies were measured on a five-point Likert scale, followed by open-ended questions in which respondents could provide reasons for their support or rejection of such a scheme of rewards. Leedy and Ormrod (2010: 189) confirm that rating scales such as the Lickert scale are useful when evaluating attitudes of respondents.

3.2 Population

Respondents were selected from small business owners in the real estate and construction industry. These industries were chosen based on previous research by The Commonwealth Association of Tax Administrators (2006) that indicated that these sectors are high on the list of likely non-compliant industries. In a South African context, SARS considers the construction industry to have one of the poorest compliance rates of all industries whilst being a major beneficiary of government spending in relation to planned infrastructure programmes (SARS, 2012: 34).

No accurate database exists from which to have selected a random sample of participants and therefore non-probability sampling was used. A quota was determined for each industry and business contact details were obtained from the South African Estate Agents Affairs Board website and the Electronic Yellow Pages (an online telephone directory). Six fieldworkers were each instructed to have 30 questionnaires completed by small business owners, using the business names and

contact details identified in the quota. The final sample was thus based on voluntary participation and a total of 180 questionnaires were completed, of which 176 could be used for the analysis.

3.3 Data analysis

The data were captured using SPSS and were summarised in the form of frequencies and percentages in a report format. The report was analysed using descriptive statistics and relevant statistical tests were used to compare the results for different groups within the sample.

4. RESULTS AND DISCUSSION

4.1 Demographic information

The demographic characteristics of the sample are displayed in Table 1 below.

Table 1: Demographic information (n = 176)

Variable		Frequency (%)
Gender	Male	58.5%
	Female	41.5%
Age	20-25	9.8%
	26-35	35.0%
	36-45	32.5%
	46-55	14.1%
	56 and older	8.6%
Ethnicity	Black	38.1
	White	44.9
	Coloured	7.9
	Indian or Asian	9.1
Educational level	Grade 12 and lower	44.2%
	Post Matric diploma or certificate	34.5%
	Degree or post-graduate	21.3%
Type of industry	Estate agent	35.4%
	Construction	57.3%
	Other	7.3%
Size of the business	Work alone	3.4%
	1-10 employees	65.7%
	More than 10 employees	30.9%

Only 55 per cent of the participants were the owners of the respective businesses. The remainder of the respondents were managers or bookkeepers (27%), and agents,

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 what 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 was 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 small 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 and will be awarded at a public occasion that will be covered by all major media networks in South Africa.

Results per statement based on Vignette 1, indicating the mean, mode and standard deviation are displayed in Table 2. Respondents could select on a scale from 1 to 5, where the value 1 represented 'strongly disagree' and the value 5 represented 'strongly agree'.

Table 2: Responses on statements B1-B5 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
B2. This scheme will motivate me to do my best to meet the submission date deadline for the business' income tax return	3.42	4	1.184
B3. It is an initiative that can have a positive effect on many small business owners' tax behaviour	3.69	4	0.982
B4. I object to the use of a lottery on religious or cultural beliefs	2.39	2	1.102
B5. I believe it will be an unfair system	2.57	3	1.130

Table 3 illustrates the spread of responses per statement.

Table 3: Detailed responses per statement for Vignette 1

Statement		Strongly disagree	Disagree	Neutral	Agree	Strongly Agree	Total
B1. This scheme will have an effect on my current tax behaviour	Count	24	36	39	47	26	172
	%	14.0%	20.9%	22.7%	27.3%	15.1%	100.0%
B2. This scheme will motivate me to do my best to meet the submission date deadline for the business' income tax return	Count	14	25	40	61	32	172
	%	8.1%	14.5%	23.3%	35.5%	18.6%	100.0%
B3. It is an initiative that can have a positive effect on many small business owners' tax behaviour	Count	7	11	43	79	32	172
	%	4.1%	6.4%	25.0%	45.9%	18.6%	100.0%
B4. I object to the use of a lottery on religious or cultural beliefs	Count	35	69	47	6	14	171
	%	20.5%	40.3%	27.5%	3.5%	8.2%	100.0%
B5. I believe it will be an unfair system	Count	38	36	72	14	12	172
	%	22.1%	20.9%	41.9%	8.1%	7.0%	100.0%

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 tax 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). This could explain why being eligible for a reward may not have such a strong effect on their tax behaviour, since many of them are already tax compliant.

The majority of respondents did not object to the use of a lottery because of religious or cultural values and the majority also indicated that they did not believe it would be an unfair system. In a subsequent statement respondents had to state 'yes' or 'no' to indicate their support for such a scheme and 58 per cent of respondents answered 'yes'.

4.2.2 Reasons for support of the scheme

The main reasons provided by respondents for supporting the scheme were that it could be motivational or beneficial to small business owners. A total of 95 responses were received in which they gave reasons why they would be in support of the scheme. Of these 45 gave reasons relating to 'motivational' and 35 reasons relating to 'beneficial'. Reasons relating to 'motivational' expressed the belief that the scheme would encourage people to take tax issues seriously, while reasons relating to 'beneficial' indicated that the money to be won in a lottery could be beneficial to the growth of a small business. The remainder of the responses reflected a variety of themes, including: 'it is a good idea'; 'it will compensate me for my effort to pay taxes'; and 'it brings joy to know people appreciate what you are doing.'

The fact that many respondents believed that it could be beneficial to a small business confirms the principle stated earlier that a reward must have a perceived value for the customer.

4.2.3 Reasons for objecting to the scheme

A total of 64 responses were received giving reasons for not being in support of the scheme. No single main theme could be inferred from the responses. Reasons such as 'tax compliance is a civic duty that should not be rewarded'; 'there is only one winner'; 'it is unfair to people without their own businesses'; and 'SARS should not pay people back when there is so much to do for the community', were amongst the common responses.

4.2.4 Concerns expressed by respondents in respect of a scheme suggested by Vignette 1

Although 95 responses were received, only 74 responses were useful since 21 responses either did not express a concern or were incomprehensible. The most significant response was the concern that corruption would prevail when a lottery system is introduced to reward tax compliance. A few respondents also felt that a lottery system will send out the wrong message, namely that 'luck is better than hard work'.

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 Tax Compliant Community. This community will then be a select group of small businesses with certain privileges, such as being publicly acknowledged as a tax compliant business, and business contact details will be publicly accessible to any interested party looking to deal with businesses that embrace a culture of compliance with the laws of the country. This database will be updated annually and business' names will be removed if in any given year they are found to be non-compliant with regard to income tax law in South Africa.

Results per statement based on Vignette 2 indicating the mean, mode and standard deviation are displayed in Table 4.

Table 4: Responses on statements B10-B14 based on Vignette 2 (n=171)

Statement	Mean	Mode	Standard deviation
B10. This scheme will have an effect on my current tax behaviour	2.89	4	1.339
B11. This scheme will motivate me to do my best to meet the submission date deadline for the company's income tax return	3.09	4	1.227
B12. It is an initiative that can have a positive effect on many small business owners' tax behaviour	3.3	4	1.185
B13. I will be proud to display such a certificate on a wall in my company for everybody to see	3.41	4	1.235
B14. I believe this scheme will help to build a culture of compliance with tax laws in SA	3.33	4	1.232

Table 5 illustrates the spread of responses per statement.

Table 5: Detailed responses per statement for Vignette 2

Statement		Strongly disagree	Disagree	Neutral	Agree	Strongly Agree	Total
B10. This scheme will have an effect on my current tax behaviour	Count	34	37	36	40	23	170
	%	20.0%	21.8%	21.2%	23.5%	13.5%	100.0%
B11. This scheme will motivate me to do my best to meet the submission date deadline for the company's income tax return	Count	26	32	34	57	21	170
	%	15.3%	18.8%	20.0%	33.5%	12.4%	100.0%
B12. It is an initiative that can have a positive effect on many small business owners' tax behaviour	Count	20	20	42	68	22	172
	%	11.7%	11.6%	24.4%	39.5%	12.8%	100.0%
B13. I will be proud to display such a certificate on a wall in my company for everybody to see	Count	20	17	39	63	32	171
	%	11.7%	9.9%	22.8%	36.9%	18.7%	100.0%
B14. I believe this scheme will help to build a culture of compliance with tax laws in SA	Count	19	25	35	64	28	171
	%	11.1%	14.6%	20.5%	37.4%	16.4%	100.0%

A similar phenomenon as with the responses to Vignette 1 is observed with respect to the belief of respondents that the scheme will have a greater impact on other small business owners' tax behaviour than on their own behaviour.

In general, more respondents are in agreement with the statements for Vignette 2 than those who disagree. The high frequency of responses that agree and strongly agree to statement B13 and B14 in particular, indicates that most respondents are in favour of being recognised for their tax compliant behaviour. The question eliciting overall support for the scheme resulted in 61.5 per cent of respondents responding with a 'yes', which is largely similar to the support expressed for Vignette 1 (58%).

4.3.2 Reasons for support of the scheme

A total of 90 responses giving reasons for their support for the scheme were analysed and three main themes emerged, namely: (1) the scheme will be a motivation to be tax compliant; (2) the scheme will have a positive impact on small businesses because it will attract customers or increase the trust of customers in the business; (3) people will enjoy the recognition they will receive for being tax compliant. These reasons made up 90 per cent of the responses, in an equal ratio.

4.3.3 *Reasons for objecting to the scheme*

Of the 58 responses analysed, 25 believed that the scheme would hold no benefit for a small business. Other frequent responses relate to the belief that the scheme is not motivational (7 responses) and that tax compliance should not be rewarded (5 responses). Some respondents indicated that they would prefer other types of reward (11 responses).

Again, the principle that a reward must be perceived as having value by recipients is strongly supported by the results.

4.3.4 *Concerns of respondents with regard to a scheme suggested by Vignette 2*

The two major concerns identified from a total of 68 responses analysed, are 'corruption' (23 responses), and 'lack of value in the reward' (25 responses). Other responses include a concern for the high cost (10 responses) and a concern that the scheme would be an administrative challenge (5 responses). The fear of corruption relates to a belief that non-compliant small business owners will forge the certificate or that false certificates will be available for purchase.

4.3.5 *Comparison of results for Vignette 1 and 2*

The mean values for the statements determining respondents' perceptions about Vignette 2 are somewhat lower than those for Vignette 1, indicating that respondents may believe that Vignette 1 has a higher motivational value. This corresponds with the finding by Fatas et al. (2015) that 'symbolic rewards are not sufficient, it is the material incentives inherent in the rewards that improve compliance'. In the present research, for example, the statement 'It is an initiative that can have a positive effect on many small business owners' tax behaviour' for both vignettes, reflects a higher mean value for Vignette 1 (3.69) than for Vignette 2 (3.3); and a lower standard deviation (0.982 versus 1.185), although the overall support for Vignette 2 was slightly higher at 61.5 per cent (Vignette 1 had a 58 per cent level of support).

The standard deviations on each statement relating to respondents' perceptions about the vignettes are higher for Vignette 2 than for Vignette 1, pointing to a larger spread of the data for Vignette 2 (and accordingly opinions that are not as strong). It was also found that the responses to the open-ended questions were more subdued for Vignette 2 than for Vignette 1.

4.4 **Comparison of results between different groups**

Using independent-samples t-tests and one-way analysis of variance tests where appropriate, the mean scores for the following groups were compared: gender; type of industry; size of business; owner status; tax awareness and responsibility; whether or not respondents are using a tax practitioner; age; race; and level of education. For the purpose of the comparison, the scales for each vignette were reduced to a single factor per vignette; an exploratory factor analysis confirmed that the items on each vignette scale could be reduced to one factor.

A significant difference between mean scores for specific groups was found for businesses with fewer than 10 employees and businesses with ten or more employees (Vignette 1: $p = 0.059$ and Vignette 2: $p = 0.048$). The smaller businesses agreed more strongly overall with both types of reward strategies. This may be because

smaller businesses may find more value in the reward providing a financial benefit or with respect to the positive exposure it might give them in their community.

Another significant difference with respect to Vignette 2 was found between respondents in the age group up to 30 and the age group 51 and older ($p = 0.008$; using a multiple comparisons table). This indicates that the younger respondents were much more positive about being rewarded with a certificate for their tax compliance than the older respondents. Kornhauser (2007) stated that older individuals are generally more tax compliant than younger ones. One of the reasons she suggested for this is that older individuals are more willing to follow or internalize social norms. This may, in part, explain the result of the difference in perceptions by age group in the present study: younger individuals appear to be more susceptible to being influenced, in other words, norms have not yet been strongly internalised.

All the other comparisons between different groups based on gender; type of industry; owner status; tax awareness and responsibility; whether or not respondents are using a tax practitioner; race; and level of education, yielded no statistically significant difference with respect to attitudes and beliefs about Vignettes 1 and 2. In respect of gender, this is contrary to the results of Bazart and Pickhard (2009) who found that the positive impact of rewards in the form of lottery winnings was particularly strong among male taxpayers.

4.5 Reliability

The consistency of responses was measured across each scale using the Cronbach alpha coefficient (α). A value of $\alpha = 0.774$ for the Vignette 1 scale, after two statements (B4 and B5) were re-coded by reversing the response categories as they were stated in the negative, and $\alpha = 0.943$ for the Vignette 2 scale resulted. Based on these values it can thus be concluded that the internal reliability of the two scales used in the questionnaire was acceptable.

5. CONCLUSION

It appears from the survey results that the small business owners included in the sample support acknowledgment by tax authorities of their tax compliant behaviour. Both scenarios were supported by the majority of the respondents, with the certificate-scenario receiving a slightly higher support. For both scenarios it was found that respondents believed that a reward system could have a positive effect on other small business owners' tax behaviour and reasons given for supporting the schemes were mainly that the schemes would have motivational value. It is noteworthy that a frequently cited concern with the possible implementation of such schemes was the fear of corruption.

It further appears that opinions did not differ between the industry, gender, race, or level of education, but that the variables of age and the size of business had an impact on opinions. Younger respondents were more in favour of the certificate scenario than those over 51 years of age, and respondents from smaller businesses agreed more strongly overall with both types of reward strategies than those respondents from businesses with 10 or more employees.

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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