

**Research Summary #7 - Sending them a Message: Culture, Tax Collection and Governance in South Africa**  
By Steven Friedman (2003)

*This paper forms part of a five year research programme under the Centre for the Future State, based at the Institute of Development Studies. Below is a summary of principal findings. Further details are available at [www.ids.ac.uk/gdr/cfs/index.html](http://www.ids.ac.uk/gdr/cfs/index.html)*

**Introduction**

This paper explores the culture of tax compliance in South Africa. The conventional explanation is that people pay because they have to. This would suggest that the recent dramatic increase in collections by the South African Revenue Service (SARS)<sup>1</sup> is attributable to increases in technical efficiency that have improved enforcement. But this explanation may be insufficient. Internationally, increases on the scale achieved by SARS are unusual. Moreover, the techniques employed by SARS have been used by other revenue authorities, with much less success. This suggests that compliance with paying tax is not just due to coercion. In other spheres of public life, the common assumption is that people tend to obey the rules whether or not they are forced to do so. The paper suggests that a similar view of human motivation applies in the case of tax. Efficiency of collection may matter, but only if a culture conducive to payment already exists.

**Tax Compliance in South Africa**

This hypothesis is supported by the success of one tactic employed by SARS, which is the high profile exposure of individuals prosecuted for tax misdemeanours – a process of ‘naming and shaming’. For this to work, there must be a culture in which non-payment is a cause of shame. But the paper suggests that compliance may not necessarily rest on active support for the state or its policies, but on a network of rules and understandings which creates a habit of compliance. Interviews with tax practitioners who advise wealthy clients show that some who fiercely criticise SARS and are sceptical about the post-apartheid order, nevertheless insist that citizens should pay tax. The paper speculates that, while compliance among white taxpayers may have originated in support for the apartheid regime, it has survived the political transition to democracy in 1994, because of ingrained habits and attitudes towards payment of tax.

The paper notes that SARS has achieved its greatest efficiency gains from companies rather than individuals. It suggests that companies are more rule-bound because they are forced to comply with rules governing relationships with government, shareholders and employees within the framework of a market economy. This does not mandate tax compliance, but may make it more likely. Similarly, individuals may be more likely to comply if they are used to interacting with the state through rules which are not arbitrary, and where compliance yields benefits. The paper contrasts the different experience of the state by white and black taxpayers under apartheid, and suggests that the impact of this - and more generally of colonial legacies on tax compliance - merit further study. Not

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<sup>1</sup> For details, see summary #6 “The Power of Politics: The Performance of the South African Revenue Service and Some of its Implications”

only does the tax relationship affect the nature of the state<sup>2</sup>, but how the state operates affects the tax relationship.

### **Implications for Policymakers**

The paper suggests that the success of SARS to date depends not just on improvements in technical efficiency, but also on being able to ‘read the culture’ of firms and individual taxpayers. SARS’ practice of recruiting staff from large accounting firms, who share common understandings with corporate taxpayers, has enhanced effectiveness. Tax practitioners also have an important role to play in sustaining a culture of compliance, since they act as a channel of communication between SARS and wealthy taxpayers. How tax is collected matters: aggressive enforcement may be counterproductive. While the importance of preserving a culture of compliance is well understood by senior revenue officials, this may be less well appreciated within government.

Finally, the paper considers the implications of all this for taxing the informal sector. Incorporating the informal sector into a rule-bound relationship, which could make tax compliance possible, is difficult because informal activity is governed by very different institutions and ideologies. But the argument of the paper is that the culture of compliance within the formal sector was constructed, not innate. So in principle it should be possible to establish a tax-paying culture within the informal sector, if enough time and care is taken to understand the underlying rules and beliefs. The key is closer engagement between government and people engaged in informal activity. This could be assisted by (i) deeper representative democracy that allows public representatives to improve links with citizens in the informal sector; (ii) a concerted attempt by government agencies to gather reliable data on the informal sector before framing policy; and (iii) research studies that can shed light on patterns of informal behaviour over a long period of time.

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<sup>2</sup> For details, see summary #2 “Revenues, State Formation and the Quality of Governance in Developing Countries”