

**TAX COMPLIANCE IN A SELF-ASSESSMENT SYSTEM IN THE CONTEXT OF
SOUTH AFRICA AND INDONESIA**

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ABSTRACT

Tax compliance is essential for both wealthy and developing nations to fulfil the requirements of the social contract. Public service delivery, fiscal deficit reduction and growth require efficient tax structures, particularly in emerging economies like Indonesia and South Africa. Self-assessment systems, where taxpayers calculate the tax owing, submit the tax return and pay the tax, aim at this efficiency. Indonesia uses self-assessment systems for all its taxes, while South Africa uses the system for Value-Added Tax, Donations Tax, withholding taxes and excise duties. Indonesia's low Tax-to-GDP ratio and South Africa's tax gap indicate compliance concerns. This highlighted the need to examine the effectiveness of self-assessment systems by assessing strategies that both countries have implemented to address concerns with tax compliance.

The study was situated within the interpretative paradigm as it sought to describe and understand tax compliance strategies implemented in relation to a self-assessment system. A qualitative methodology applied in terms of which data was thematically analysed. Data sources were in the form of publicly available materials.

The study identified factors associated with tax compliance, discussed compliance problems faced by Indonesia and South Africa, and analysed the strategies that both countries implemented to address low compliance. It was found that both Indonesia and South Africa invest in tax education. Indonesia uses rehabilitative enforcement measures while those of South Africa are punitive. Technology and innovation have been applied by both countries in enhancing compliance. Tax reforms such as the *Sunset Policy* in Indonesia and *Voluntary Disclosure Programmes* in both countries have been introduced to broaden the tax base and improve compliance. Both countries promote trust-based compliance through communication and service quality.

Recommendations were made to improve tax compliance in South Africa. This included strengthening taxpayer education and awareness, enhancing digital infrastructure and technological inclusion, balancing enforcement with trust-based compliance, and implementing an *e-invoicing* system for VAT administration.

Key words: *Indonesia, self-assessment system, South Africa, tax compliance, Tax-to-GDP ratio, Value-Added Tax.*

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LIST OF ABBREVIATIONS

B2B	Business-to-Business
B2C	Business-to-Consumer
B2G	Business-to-Government
EFDs	Electronic Fiscal Devices
GDP	Gross Domestic Product
NPA	National Prosecuting Authority
OECD	Organisation for Economic Cooperation and Development
PWC	PricewaterhouseCoopers
SAPS	South African Police Service
SARS	South African Revenue Service
SIU	Special Investigating Unit
SMEs	Small and Medium Enterprises
TVET	Technical and Vocational Education and Training
VAT	Value-Added Tax

CHAPTER 1: INTRODUCTION

1.1 RESEARCH CONTEXT

Taxes are an important source of revenue for government, and the mainstream of revenue generation for developing countries. These revenues are needed to improve infrastructure, deal with climate change and, most importantly, to finance poverty reduction (Keen, 2012). According to Stiglingh *et al.* (2024:1), the relationship between government and its citizens is referred to as a social contract. In this relationship, the government has the responsibility to provide goods and services in the form of infrastructure, jobs, education, security, etc., to the citizens, and in turn, the citizens have the responsibility to pay taxes to allow government to fund these goods and services. This relationship is also enshrined in the Constitution of the Republic of South Africa, 1996, (the Constitution) in the Bill of Rights, which states that every citizen has the right to access to housing (section 26), the right of access to healthcare, water, food, and social security (section 27), and the right to education (section 29). Section 27(2) of the Constitution places the responsibility on the government to guarantee the provision of goods and services, taking account of the resources at its disposal. Most of the available resources are raised through taxes. Not only do taxes exist to fund government expenditure but serve to reduce inequalities through a policy of distribution of income and wealth so that the income gap between the rich and the poor is not significant (Lymer & Oats, 2009).

Taxes also contribute to the Gross Domestic Product (GDP) of the country (Entin, 2004). The Tax-to-GDP ratio is the ratio of tax revenue to the country's GDP. In terms of National Treasury's budget review (National Treasury, 2024:33), South Africa's Tax-to-GDP ratio over the past three years has shown a fluctuating trend of 22.3% in the 2020/21 period, 24.5% in 2021/22 and 25.1% in 2022/23, and for the 2023/24 period was estimated at 24.6%. In contrast, Indonesia has achieved a low Tax-to-GDP ratio of 10.9% in 2021, 10.4% in 2022 and 10.8% in 2023 (Organisation for Economic Cooperation and Development (OECD), 2023). The success of the social contract, collection of taxes and the Tax-to-GDP ratio is inseparable from the role of each stakeholder, including the tax authorities, citizens, and the government. The social contract is dependent on the taxpayers' compliance with the laws and regulations governing the country's tax system.

According to Mohd (2010), tax compliance is the reporting of all incomes and paying of all taxes in terms of the provisions of laws, regulations, and court judgments. Tax compliance was also defined by Singh (2003) as the person's act of filing the Income Tax return, declaring all taxable income accurately, and paying all taxes due within the stipulated period without having to wait for follow-up actions from the authority. Hardika, Budiarta and Sudibya (2017) also defined tax compliance as entering and reporting the required information in time, filling in the correct amount of the tax payable, and paying the tax in time, without any act of compulsion.

Tax compliance can be divided into two dimensions: voluntary compliance and compliance through the enforcement of law. Voluntary compliance means that taxpayers behave in a way required by law, but without direct compulsion from the Revenue Service (Manhire, 2015). Voluntary tax compliance entails taxpayers assuming the responsibility for determining their own tax liabilities and promptly fulfilling their tax payment and reporting duties (Hazmi & Bretariono, 2022). Compliance through law enforcement entails the revenue authorities imposing penalties and fines if taxpayers do not fulfil their tax obligations in the prescribed manner and time. Failure to do so constitutes non-compliance and this is regarded as intentional evasion of tax, the result of which is penalties and fines imposed in South Africa, in terms of Chapters 15 and 16 of the Tax Administration Act, 28 of 2011, as amended ("the Tax Administration Act").

Self-assessment systems allow taxpayers to determine and report their own tax liabilities (Manhire, 2015). Thus, in a self-assessment system, taxpayers complete the return, calculate the tax due, submit the return and pay the tax, without intervention by the revenue authority. In South Africa, self-assessed taxes include Value-Added Tax ("VAT"), Donations Tax, and various levies and excise duties, such as the Carbon Tax and the Health Promotion Levy. Despite the introduction of tools like *eFiling* and *MobiApp* in South Africa, these are not self-assessment systems but rather digital platforms supporting the submission of tax returns and dealing with other tax matters. In Indonesia, self-assessment systems have been a central component of the tax administration strategy to enhance compliance. These systems enable taxpayers to calculate, report, and pay their taxes independently, aiming to reduce administrative burdens and increase efficiency (Hazmi & Bretariono, 2022). The key self-assessed taxes in Indonesia include VAT, Corporate Income Tax, and Individual Income Tax. Like South Africa, Indonesia has also introduced digital tools to support the self-assessment process (Sulastri, Mulyani & Sukmadilaga, 2023). For example, the *eFiling* system in

Indonesia allows taxpayers to submit their tax returns online, but it serves as a platform rather than a self-assessment system *per se*. The *eFiling* system is part of a broader effort to improve tax administration, but it has not fully addressed underlying issues related to taxpayer education, enforcement, and compliance (Singh, 2003).

Indonesia, with a population of approximately 275 million in 2022 and 280 million in 2024, is a significant player in the Asia-Pacific region and is the fourth largest country in the world based on its population (World Bank, 2022; Worldometer, 2024). Taxes play an important role in Indonesia's development as 78,5% of the country's revenue came from taxes in 2023 (Ministry of Finance of the Republic of Indonesia, 2023), with value-added taxes being the largest contributor, followed by corporate income taxes (Ministry of Finance of the Republic of Indonesia, 2018). Despite a high taxpayer compliance rate of 83.2% in 2022, Indonesia faces challenges in achieving a Tax-to-GDP ratio exceeding 15%, which has historically been lower than in other Asian countries like Malaysia and Singapore (OECD, 2023). This low ratio reflects difficulties in translating high formal compliance into effective revenue collection. South Africa's population was about 62 million in 2022 and about 64 million in 2023 (Statistics South Africa, 2023: Online; Worldometer, 2024), which equates to about a quarter of Indonesia's population. Except for the differences in the tax system and tax rates for various taxes, which are lower in Indonesia compared to South Africa, one would expect a country with a high number of taxpayers to have a well-functioning system that promotes efficiency in the tax administration and fosters compliance. However, this appears not to be the case for Indonesia simply because the tax system in place (a self-assessment system) is reliant on taxpayers' tax morale and honesty.

South Africa also faces challenges, with a critical focus on improving taxpayer compliance and addressing discrepancies between return submissions and actual revenue collection (Andini & Rahmiati, 2020). Like Indonesia, South Africa struggles with tax compliance issues, which impacts its ability to fund essential public services effectively (Phalanti & Tabing, 2023). Both countries recognise the need for enhanced tax policy measures and administration to bridge the gap between formal compliance and actual fiscal outcomes, aiming for a more robust and efficient tax system to support economic growth and development (OECD, 2023).

Against this background, both countries have implemented self-assessment systems to improve tax compliance. However, these systems have faced challenges. Indonesia's system has

struggled to translate high formal compliance rates into adequate revenue, while South Africa's self-assessment mechanisms are yet to fully address compliance gaps. Thus, the issues such as administrative burden, taxpayer education, and enforcement inconsistencies have emerged. In an effort to mitigate the challenges, both countries have employed various measures, including audits, penalties, and taxpayer education programmes.

The effectiveness of these strategies and additional measures for enhancing tax compliance remains underexplored. Therefore, this provokes the research question: How do the strategies implemented in Indonesia to address low tax compliance following the introduction of the self-assessment system compare with the South African approach?

1.2 GOALS OF THE RESEARCH

The primary objective of this research is to analyse factors associated with tax compliance and examine strategies implemented in Indonesia and South Africa to address low tax compliance, after the introduction of self-assessment systems.

The main goal will be addressed by the following sub-goals:

- providing a detailed discussion of factors that affect tax compliance;
- discussing the role of a self-assessment system in promoting tax compliance, and compliance problems that arise due to its use;
- identifying measures adopted by Indonesia and South Africa to address low tax compliance after introduction of the self-assessment system; and
- making recommendations regarding measures to promote tax compliance in South Africa.

1.3 METHODS, PROCEDURES AND TECHNIQUES

This study is situated within the interpretivist paradigm. The interpretative researcher assumes that access to reality is through social constructs such as language, shared meanings, and instruments (Bhattacharjee, 2012; Myers, 2008). The interpretivist paradigm, in the context of the present research, acknowledges that tax jurisdictions may have different strategies (multiple truths) to address the low tax compliance phenomenon. The present research uses language, the shared social meaning of the legislation enacted, and instruments in the form of

documentary data, and therefore the interpretivist paradigm is appropriate (Leedy & Ormrod, 2005: Online).

This study utilizes existing research to describe and understand (Babbie & Mouton, 2009) the methods and strategies employed to address low tax compliance. The interpretative paradigm is appropriate in this context, as it involves reviewing and analysing existing research and other sources to describe and compare the strategies applied by Indonesia and South Africa to address low tax compliance. The research is qualitative in nature. Williams (1998) defined qualitative research as that which uses natural language arguments as opposed to numbers and figures. An extended natural language argument supported by logical reasoning is used in the present study to address the research question. A desktop review approach is used, and no primary data collection is conducted. The documentary data used include published articles, academic texts, other writings (newspapers, books, etc.), reports of the Ministry of Finance and Directorate General of Taxes in Indonesia, reports of the South African Revenue Service (SARS) and National Treasury, the World Bank and OECD reports, and government publications on the topic.

The credibility and quality of the research is promoted by referring primarily to the writings of experts on the topic, and the discussion of opposing viewpoints, supported by evidence.

1.4 ETHICAL CONSIDERATIONS

All the documentary data for this research are publicly available and therefore no ethical considerations arise. No application for ethical clearance was submitted using the Ethical Application System (ERAS) of Rhodes University.

1.5 OVERVIEW OF THE THESIS

The thesis is divided into five chapters. Chapter One (this chapter) introduced the topic, discussing the research context, outlining the research question and goals, describing the methods, procedures and techniques applied in carrying out the research, and noting the ethical considerations.

Chapter Two discusses the factors that influence tax compliance. The chapter first defines tax compliance in detail and then describes the factors that influence it.

Chapter Three describes the South African and Indonesian tax systems to provide an understanding of the differences between the two systems and how taxes are administered in both countries. Then the self-assessment system used by both South Africa and Indonesia is discussed, together with problems that arise due to its application.

Chapter Four analyses the strategies that have been introduced by both countries to address low tax compliance following the implementation of the self-assessment system. The strategies employed by the two countries are compared for effectiveness in addressing the low tax compliance phenomenon.

Lastly, Chapter Five briefly outlines the chapters, provides a summary of the research findings, makes recommendations, identifies the contribution of the research and its weaknesses, and suggests further research opportunities.

CHAPTER 2: FACTORS THAT INFLUENCE TAX COMPLIANCE

2.1 INTRODUCTION

This chapter addresses the first sub-goal of the research and discusses factors that influence tax compliance. Taxes play an important role in nation building and for tax jurisdictions to achieve much needed revenue from tax collection, compliance by taxpayers is essential. It is important to understand factors that influence or encourage taxpayers to be tax compliant or non-compliant so that tax authorities can strategize ways to address those factors that seem to give rise to non-compliance among taxpayers and leverage on those that appear to be the reason taxpayers are willing to be tax compliant. Authors writing on tax compliance have established several factors that affect taxpayers' compliance that are discussed below.

The chapter is divided into three sections. The first section discusses the definition of "tax", "compliance" and "tax compliance" based on existing literature. The second section discusses factors that affect or determine taxpayer compliance. The section is subdivided into five parts; the first part discusses economic factors influencing tax compliance to determine how factors such as the tax rate, a potential tax audit, and perceptions of government spending influence taxpayers' compliance. The second part discusses institutional factors, with the focus on the role of government and the tax authority, simplicity of tax returns and administration, and the probability of detection. The third part discusses social factors, such as taxpayers' perceptions about the equity and fairness of tax, ethics and attitudes towards tax, referent groups and changes to government policies. The fourth part discusses individual factors, such as taxpayers' awareness and knowledge of tax penalties applying, should they become non-compliant, and financial constraints. The last part discusses other factors not dealt with in parts one to four, such as profitability and education, that according to research have the potential to affect tax compliance. The last section of this chapter concludes on the discussions in the chapter.

2.2 DEFINITION OF "TAX", "COMPLIANCE", AND "TAX COMPLIANCE"

Tax non-compliance has an adverse effect on revenue collection by the tax authorities and, as a result, the government fails to a certain extent to deliver on its constitutional mandate of providing goods and services to citizens. The other result of tax non-compliance is that the country will achieve a lower Tax-to-GDP ratio.

“Tax” was defined by Lymer and Oats (2009:1) as a compulsory levy imposed by government and other taxing bodies on income, expenditure, or capital assets for which the taxpayer receives nothing specific in return. It is submitted, however, that taxpayers do get something in return for the taxes they pay, in the form of infrastructure development, security and other goods and services, as taxes are used to fulfil the social contract between government and its citizens. Taxes are imposed for the purpose of revenue generation to fund the public expenditure and to reduce inequality through a policy of redistribution of income and wealth so that the income gap between the rich and the poor is not significant (Singh, 1999; Shanmugam, 2003; Lymer & Oats, 2009).

Taxes are classified into direct and indirect taxes. Direct taxes refer to the liability for tax on income received that is borne by the taxpayers receiving the income, and indirect tax is the tax charged on the consumption of goods and services (Barjoiyai, 1987). For example, VAT, carbon taxes, and other excise duties are indirect taxes. Indirect taxes are not directly levied on the consumer but on the goods and services they purchase and consume and are included in the retailer’s selling price to cover the tax. In South Africa VAT is levied at 15% on the value of goods and services, while Indonesia levies VAT at a rate of 12% (PWC, 2025: Online). The retailer has the duty to pay over the tax collected to the taxing authority of the country. The indirect taxes are levied on every person that consumes goods and services regardless of their age, or economic level, while direct taxes are levied on the “ability to pay” principle. Mansor, Tayib and Yusof (2005) viewed the “ability to pay” principle as a disincentive for taxpayers to work hard and earn more, as that would mean paying more taxes. For direct taxes, the taxpayer is required to register for tax according to the tax administration requirements of the tax authority and is issued with tax reference (or identity) number. For indirect taxes, the consumer need not register, but the retailer (the vendor in case of VAT) must register to collect the VAT and pay it over to the tax authority on behalf of the consumer.

According to Prastiwi and Diamastuti (2023), tax compliance plays a pivotal role in the success of tax collection efforts. The ordinary meaning of the term “compliance” according to the Oxford Learners’ Dictionary (2022: Online) is “the practice of obeying rules or requests made by people in authority”. Hermanto, Windasari and Aprianingsih (2022) contended that the term refers to both obedience and discipline. In the tax context, tax compliance has been defined from different perspectives. Tax compliance was defined by Mohd (2010) as the reporting of

all incomes and paying of all taxes by fulfilling the provisions of laws, regulations, and court judgments. Singh (2003) defined it as the person's act of filing the Income Tax return, declaring all taxable income accurately, and paying all taxes due within the stipulated period without having to wait for follow-up actions from the authority. Hardika *et al.* (2017) also defined tax compliance as entering and reporting the required information in time, filling in the correct amount of the tax payable, and paying the tax in time, without any act of compulsion.

Kirchler (2007) suggested a simpler definition in which tax compliance is defined as the most neutral term to describe the taxpayers' willingness to pay their taxes. Andreoni, Erard and Feinstein (1998) defined tax compliance as the taxpayers' willingness to obey the tax laws to maintain the economical equilibrium of a country. Furthermore, the authors expanded on the definition by stating that compliance refers to the taxpayers' willingness to comply with tax laws regarding the accurate declaration of income, filing of returns with the appropriate government agency, and payment of all taxes in a timely manner. Atawodi and Ojeka (2012:90) defined tax compliance as "fulfilling all tax obligations as specified by the law freely and completely". Lastly, Nkwe (2013: 116) described tax compliance as "the degree to which a taxpayer obliges to [obeys] tax rules and regulations". According to the definitions of various authors, tax compliance, in summary, is the taxpayer's willingness to obey the tax laws by filing the tax returns as required by law, with the correct amounts, and paying over the tax in time without a follow up from the tax authority.

Tax compliance can be classified into two dimensions: voluntary compliance, and compliance through law enforcement. The former dimension was defined by Manhire (2015) as the taxpayer behaving in a way required by law without direct compulsion from the revenue service. The second dimension entails the taxpayer being forced to comply through the penalties and fines that the revenue authorities impose. According to Zakya (2014), compliance is categorized into formal compliance (administration – on time submission of the tax return) and material compliance (accuracy – precise tax return content). Formal compliance refers to taxpayers formally fulfilling their tax responsibilities in terms of the requirements of tax laws. Material compliance refers to a taxpayer's behaviour in complying with all material terms of taxation (Hermanto *et al.*, 2022). Material non-compliance could represent the problem that the information furnished in a tax return by the taxpayer is inaccurate, incomplete, and not truthful, and that consequently the correct amount of tax is not calculated and paid over to the revenue authority.

In the South African context, section 25 of the Tax Administration Act states that “a person required by a tax Act to submit a return must do so in the prescribed form and manner and by the date required by the Act or by the Commissioner in the public notice”. Therefore, tax compliance does not only involve filing the tax returns accurately and truthfully, but submitting them in time as well, thus acting in the manner required by tax law. A taxpayer who does not fulfil this duty of submitting the tax return in time and in the prescribed form and manner is said to be non-compliant and to have committed an offense and may be regarded by the Commissioner for SARS as intentionally evading tax.

It is submitted that tax evasion is a form of non-compliance that entails taxpayers using illegal means to free themselves from a tax liability through strategies that involve fraud and deceit. In contrast, tax avoidance is a tax planning strategy that entails taxpayers using or electing legal reliefs available in terms of the Tax Act to reduce or defer their tax liability. This is seen as the legitimate and legal process of protecting the person’s property from unnecessary erosion by taxation (Stiglingh *et al.*, 2023). For example, in South Africa, the legal relief available in the context of income tax involves, among others, section 9HB of the Income Tax Act, 58 of 1952, as amended (the Income Tax Act), which defers the taxation of the disposal of assets between spouses by transferring the asset history to the transferee, paragraphs 65 and 66 of the Eighth Schedule to the Income Tax Act and section 8(4)(e) of the Income Tax Act, which defer the inclusion of capital gains and recoupments realized, whether voluntarily or involuntarily, from the disposal of certain assets.

Non-compliance can arise in the form of not submitting a tax return within the required period, or non-submission, understatement of income [output tax in the case of VAT], overstatement of deductions [input tax], or not paying the assessed [or self-assessed] taxes by the due date (Kasipillai & Abdul-Jabbar, 2006). These non-compliance behaviours can be regarded as intentional evasion of tax in terms of the Tax Administration Act. Ponorică and Al-Saedi (2015) contended that non-compliance undermines the tax system’s equity and efficiency and impedes sustained economic development.

2.3 FACTORS THAT INFLUENCE TAX COMPLIANCE

This section discusses factors that influence tax compliance behaviour. The section is divided into five sub-sections dealing with economic, institutional, social, individual, and other factors that influence tax compliance. These factors were identified by Kirchler (2007) and Loo (2006) from an interdisciplinary perspective, which represents a wider perspective of tax compliance. In contrast, Devos (2014) classified the tax compliance factors into two models, the economic deterrence model, and the fiscal and social psychology models, which have been identified in other literature as economic and behaviour approaches (James *et al.*, 2001 and Kirchler *et al.*, 2010). For the present study, the theory developed by the authors Kirchler and Loo is adopted as it provides a better understanding of taxpayers' tax compliance behaviour. Also, the present study discusses the factors that affect tax compliance in a self-assessment context.

2.3.1 Economic factors

Loo (2006) stated that economic factors in relation to tax compliance are actions that are associated with the costs and benefits of complying with the tax laws. It is assumed that taxpayers are likely to make an economic decision to avoid paying tax by looking at the cost and benefits of being tax compliant, thus leveraging on the savings they will enjoy if they do not comply (Torgler & Schneider, 2005). For example, taxpayers will achieve this by understating their income (output tax in the case of VAT) and/or overstating the expenses (input tax in the case of VAT) when completing a tax return, thereby benefiting from the saving if they are not detected. However, this indirectly indicates their willingness to pay more should they be caught, as the tax unpaid on the shortfall (undeclared output VAT in South Africa), or overclaimed expense (input VAT), will become payable, together with the penalty for intentionally evading tax and interest if they do not pay within the prescribed period. The economic factors associated with tax compliance comprise tax rates, tax audits and perceptions of government spending. Each of these is discussed below to identify how they may influence taxpayer behaviour.

2.3.1.1 Tax rates

This subsection discusses the impact of tax rates on taxpayer compliance behaviour, to establish whether there is a positive or negative relationship between an increase or decrease

in tax rates and tax compliance. Tax rates refer to the rate at which tax is levied on income or consumption in the case of VAT.

Both Indonesia and South Africa levy various types of taxes (income tax, VAT, and others) (refer to Table 1 in Chapter 3), and different tax rates apply to each tax type and for each category of taxpayer liable to pay tax. According to Clotfelter (1983), reducing tax rates is not the only tax policy with the potential to discourage tax evasion. But it is an important factor in determining tax compliance behaviour, although the exact impact is still unclear and debatable, as concluded by Kirchler (2007). Other researchers claimed that reducing the tax rates does not necessarily increase tax compliance (Trivedi, Shehata & Lynn, 2003). Similarly, increasing tax rates does not necessarily increase tax compliance (Allingham & Sandmo, 1972). As a result, the impact of tax rate changes cannot be determined with certainty.

Inasius (2015) also indicated that perceptions regarding the tax rate have no impact on tax compliance. This was further demonstrated in a study by Inasius (2019) on Small and Medium Enterprise (SME) taxpayers in Indonesia, using multiple regression analysis to investigate the relationship between perceptions of the tax rate and tax compliance. The results of the study showed that there is an insignificant relationship between the tax rate and tax compliance. These findings are in line with those of Kirchler (2007) that the relationship between the two variables is unclear.

In South Africa, the then Minister of Finance (Mr Malusi Gigaba) in his 2018 budget speech (Budget Speech, 2018) tabled a tax proposal to increase the VAT rate by 1% from 14% to 15% with effect from 1 April 2018, as a measure to increase tax revenue, which was subsequently applied. The tax revenue (VAT payments) did increase by 4,2% and 5,8% in the 2018/19 and 2019/20 fiscal years, respectively (Koloane & Makananisa, 2020). This indicates the positive impact of the increase in the tax revenue but is not necessarily attributable to increased tax compliance or a broadened tax base. In a study by Schoeman (2021: Online) to establish whether the increase in the VAT rate would lead to increased tax evasion by SMEs, it was found that SMEs are more inclined to understate the VAT liability due when there is an increase in the VAT rate, as they perceive it to be more financially beneficial despite the penalties that will be payable if they are caught. These results indicated that when there is an increase in the tax rate, taxpayers may find tax evasion more lucrative, resulting in an increased level of non-compliance, but a decrease in tax rate does not lead to increased tax compliance.

It is therefore not clear whether tax rate changes have an impact on tax compliance, and literature has not established the relationship between this variable and tax compliance. Furthermore, it appears that increasing tax rates creates an incentive for tax evasion by taxpayers, while reducing the tax rates does not encourage tax compliance.

The following subsection discusses the impact of tax audits on tax compliance.

2.3.1.2 Tax audits

The words “tax audit”, the probability of audit, and “verification”, are used interchangeably in research aimed at establishing how tax audits affect tax compliance or reduce tax evasion by taxpayers.

A tax audit is an administrative process, and it entails the tax authority requiring the taxpayer to submit information or documents to support the income declared (or VAT output) or expenses claimed (or VAT input) in a tax return. This information is examined by the tax auditor to determine the accuracy of the tax position. Even if taxpayers did not submit a tax return, they could still be audited to ensure that they comply with tax laws (SARS, 2024a: Online). Jackson and Jaouen (1989) and Dubin (2004) asserted that tax audits play an important role in a self-assessment system and their central role is to increase tax compliance. The authors argued that tax audits have a positive impact on tax compliance. They further claimed that they encourage taxpayers to be more prudent (and honest) in completing their tax returns by ensuring that they declare the correct income and claim the correct deductions to calculate their tax liability. In addition, Butler (1993) concluded that tax audits have positive impact on tax compliance.

Inasius (2019) also concluded that there is a significant relationship between the probability of an audit and tax compliance. Inasius (2019) confirmed that a high probability of audit would potentially increase tax compliance. That tax audits not only encourage tax compliance but promote sound record keeping by taxpayers, was found in a study by Evans, Carlton, and Massey (2005) on SMEs, that investigated the relationship in Australia between record keeping practices of SMEs and the potential exposure to tax compliance problems. The study concluded that SMEs keep records for tax compliance as the main reason, not as part of their day-to-day

management of the business. The study also concluded that, as tax audits increase, SMEs put more effort into proper record keeping. Therefore, if taxpayers are aware of the tax audit process and the possibility of being selected for audit, they are likely to keep their documents to ensure ease of access and timely submission to the tax authority should they be notified of a tax audit. Also, it is submitted that taxpayers who are aware of tax audits are less likely to evade tax as they might be subject to tax sanctions for intentional tax evasion should the audit process identify this.

Tax audits do play a significant role in tax compliance (there is a positive relationship between tax audits and tax compliance) and encourage proper record keeping by taxpayers. Tax audits by the tax authority positively contribute to identifying tax evasion and, as a result, increase tax revenue collection.

The following sub-section discusses the effect of perceptions of government spending on tax compliance.

2.3.1.3 Perception of government spending

Generally, taxpayers will be more willing to comply with tax laws if government spends the money wisely on projects such as education, basic healthcare, and security, thus delivering on the social contract it has with the citizens. According to the Davis Tax Committee (2017), taxpayers' attitudes towards tax compliance are largely influenced by how the government utilises the tax revenues. Kirchler, Hoelzl and Wahl (2008) also concluded that, in general, tax attitudes depend on the perceived use of the revenue collected. If the government spends tax revenue wisely, voluntary compliance is likely to increase. By contrast, if there is a perception by taxpayers that tax revenue is spent on unnecessary or unlawful projects, they will lose trust in government's ability to manage and spend tax revenue and, in turn, may attempt to evade tax despite the consequences they may face should they be caught through the tax audit process.

Issues of corruption, poor, and in some instances, lack of service delivery by the government may affect tax compliance due to the public's lack of confidence in government's use of tax revenue (Davis Tax Committee, 2017). Furthermore, SARS, in the Davis Tax Committee report, acknowledged the unfavourable public perceptions of poor state service delivery and

corruption as a risk that needs to be managed. SARS further acknowledged that the taxpayers' perception of government inefficiency encourages a culture of non-compliance.

The study by Inasius (2019), however, concluded that there is no significant relationship between government's spending and tax compliance. The author believed that how government spends taxpayers' money would not increase the compliance of taxpayers.

Notwithstanding Inasius' findings, it is submitted that there is a positive relationship between government's use of tax revenue and taxpayers' attitudes towards tax compliance. When the government uses tax revenue effectively, taxpayers are more likely to comply and fulfil their tax obligations as required by tax law because they perceive that they derive value for their money.

This section discussed factors influencing tax compliance from an economic perspective. According to literature, the impact of tax rates on tax compliance is not clear. Tax audits and perception of government spending, however, have a positive influence on tax compliance.

The next section discusses further factors influencing tax compliance, with the focus on institutional factors.

2.3.2 Institutional factors

This section discusses factors influencing taxpayers' compliance decisions from an institutional perspective. Institutional factors include the role of government and the tax authority, the simplicity of tax returns and administration, and the probability of detection.

2.3.2.1 Role of government and the tax authority

Each country's tax system is managed by the government through the tax office, an office of state responsible for tax collection and administration. The role of government is to design tax policy and the tax authority's role is to implement the tax policy through (among others) setting tax collection targets and ensuring these targets are achieved through the tax system. Taylor (2002) confirmed that tax authorities are designated by governments to collect revenue on their

behalf, and in carrying out this role, governments must establish a relationship with its taxpayers that encourages compliance with the tax laws.

In designing a tax policy that will encourage compliance, it is contended that the policy must, at a minimum, conform to Adam Smith's principles of a good tax system. Adam Smith, in his book titled "The Wealth of Nations [1776]" (Smith, 1937), stated that a tax system should be based on the principles of equity, certainty, convenience, and efficiency, which were explained by Lymer and Oats (2009) and Stiglingh *et al.* (2024) as follows:

- Equity – tax would be fair if it is levied based on the taxpayer's ability and capacity to pay the tax.
- Certainty – taxpayers should have certainty regarding their tax liability (amount), and where and when (timing) to pay taxes due. Thus, it is suggested that in a self-assessment system, the tax system must be simple so that taxpayers can understand and calculate their tax liability.
- Convenience – relates to the payment of taxes in a convenient manner. For example, are taxes withheld as and when income is earned (for example, through the Pay-As-You-Earn system) or at a point in time (for example, on assessment) as a lump sum? Also, the method that taxpayers use to submit their tax returns must be convenient and should not require them to visit the tax authority's offices to submit their tax returns. For example, in South Africa the use of *eFiling* or *MobiApp* platforms create a convenient method for taxpayers to submit their returns, as they can do it in the comfort of their homes, as opposed to queuing at the tax authority's offices.
- Efficiency – refers to how the tax authority collects tax revenues, and efficiency is divided into the two categories of administrative and economic efficiency. Administrative efficiency relates to the costs associated with collecting taxes. The higher the cost that is incurred to collect tax, the smaller the proportion of the funds collected that are available for government to spend on providing services to the public. Economic efficiency means that the tax system should not unduly influence economic decision making.

When the tax system complies with these principles, taxpayers are more likely to be tax compliant.

Trust and respect shown by the government to taxpayers has impact on tax compliance. It was concluded in a study in Indonesia by Prastiwi and Diamastitu (2023) that respectful treatment by revenue officials in tax collection can significantly enhance tax compliance by as much as five percent. The authors explained that tax compliance is not solely determined by tax laws but also by their enactment through tax authorities. Therefore, when taxpayers are treated with respect by the tax officials and not seen as subjects for revenue generation only, they are likely to comply more willingly with the tax laws. In addition, taxpayers' trust in tax officials has the potential to enhance tax compliance. Prastiwi and Diamastitu (2023) concluded that the relationship between respectful treatment of taxpayers and tax compliance is partially mediated by trust. The authors suggested that respectful treatment enhances taxpayers' trust and can lead to accurate reporting of tax obligations, therefore increasing the level of tax compliance. Richardson (2008) suggested that government should improve its reputation and credibility to win the trust of taxpayers.

The following subsection discusses the simplicity of legislation, tax returns and administration as factors contributing to compliance.

2.3.2.2 Simplicity of legislation, tax returns and administration

As tax systems evolve to cater for technological and regulatory changes, the complexity that accompanies these changes has become a factor in the compliance decision of taxpayers. Dewi Anggadini *et al.* (2022) claimed that a complex tax system affects tax compliance.

Stiglingh *et al.* (2024:5), in explaining the principles of a good tax system, stated regarding the simplicity principle that “the tax system should be designed in a manner that it is easy to understand and apply”. The most important self-assessment system in South Africa is the VAT system, which is one of the most complex pieces of tax legislation, with cross-referencing between sections throughout the Act. In addition, the sections themselves are complex. An example of complexity in the Value-Added Tax Act, 89 of 1991, as amended (the VAT Act) is section 18(5). After the subsections (a), (b) and (c) of section 18(5), and before the formula, one paragraph consists of 269 words without a full stop, and with six modifying “ifs”. This results in a section that is complicated and difficult to interpret. Difficulty in understanding legislation may have an impact on the willingness of taxpayers to comply.

Palil (2010) confirmed that in a self-assessment system, the returns used in the system require a measure of simplicity, as taxpayers have different backgrounds, particularly in relation to education, income levels and knowledge of taxes. Therefore, to minimise the risk of non-compliance by taxpayers, the tax return developed by the tax authority should be simple to complete but detailed enough to reflect all the required information. When the tax return is easy to complete, taxpayers are more likely to be compliant. Palil (2010) suggested that to achieve simplicity in terms of tax returns, the information required in the return must be at a minimum level and readily available from taxpayers' business and personal records. Silvani and Baer (1997) concluded that simplifying the tax return encourages taxpayers to complete their tax returns on their own, rather than employing the services of a tax agent, thus reducing their compliance costs.

Regarding the simplicity of tax administration, it is submitted that the submission of returns should not impose an administrative burden on the taxpayer. Simplicity could mean, *inter alia*, the way in which the tax returns are submitted, which could involve the use of information technology systems to submit the return in the comfort of the taxpayer's home or elsewhere, subject to having access to the necessary tools, such as the internet and a computer, rather than manual submission, where the taxpayer has to go to the tax authority's offices with documents and use the assistance of a tax official to file the return. The online method in South Africa includes the *eFiling* or *MobiApp* tools that were introduced by SARS to aid the administration of tax return submission.

According to SARS (2024b: Online), *eFiling* is an online platform for the submission of returns, declarations, and other related services. This service allows taxpayers, tax practitioners, traders, and businesses to register and submit returns and declarations, make payments, and perform a few other interactions with SARS in a secure online environment. Taxpayers registered on *eFiling* can engage with SARS online for the submission of returns, declarations, payments, and submitting documentary proof in respect of their tax obligations.

A tax administration system that is modernised can positively affect tax compliance. In a study by Dewi Anggadini *et al.* (2022) on individual taxpayer compliance in Indonesia, it was concluded that there is a positive relationship between tax administration modernisation and individual taxpayers' compliance. The analysis identified an 82,63% correlation between tax modernisation and individual taxpayers' compliance, thus a positive relationship between the

two variables. The use of information technology systems to administer the submission of tax returns is a tax administration modernisation strategy that could increase taxpayer compliance.

When tax returns and the administration of taxes are simplified, taxpayers are more likely to comply, as opposed to a complex tax system. A simplified tax return and administration system assists taxpayers to accurately complete their tax return, therefore increasing tax compliance. The tax authority should also ensure that the tax system is easy to understand and apply, considering the different taxpayer backgrounds.

The following subsection discusses the effect of the probability of detection on tax compliance.

2.3.2.3 Probability of detection

Detection refers to the discovery of taxpayers' tax evasion by the tax authority through the audit processes. Allingham and Sandmo (1972) found that taxpayers will declare their income correctly if the probability of detection is high. In line with Allingham and Sandmo, Riahi-Belkaoui (2004) and Richardson (2008) also held that the probability of detection plays a significant role in reporting behaviour, as taxpayers will declare everything if they perceive that they will be one of the auditees in that particular year. Therefore, these authors suggested that a positive relationship exists between tax compliance and detection.

By contrast, Slemrod, Blumenthal and Christian (2001) conducted an experiment to investigate the relationship between the probability of being audited and the taxpayers' responses. The results of the experiment could not establish a clear relationship (whether negative or positive) but indicated that the taxpayers' behaviour varied with the level of income, and the probability of being audited plays a role in the taxpayer's tax evasion behaviour.

Regarding the audit factor, it is concluded that the level of compliance is high and can be positively influenced when there is a high probability of being detected and audited. Therefore, it appears that a relationship does exist between the probability of detection and tax compliance.

This section discussed the determinants of tax compliance from an institutional perspective. Based on the discussion, it is concluded that the way in which the government and the tax

authority fulfil their roles, the simplicity of tax returns and administration, and the probability of detection have a positive impact on the taxpayers' compliance decisions.

The following section discusses the impact of social factors on tax compliance.

2.3.3 Social factors

The social aspect of tax compliance demonstrates that taxpayers' willingness to comply with tax laws is often in response to the behaviour of the people around them and the social environment they live in. The social factors include the taxpayers' (vendors, in the case of VAT) ethics and attitudes towards tax, perceptions of equity and fairness, changes to government policies and regulations, and referral groups.

2.3.3.1 Ethics and attitudes towards tax

The term ethics was defined as moral principles that control or influence a person's behaviour (Oxford Learners Dictionary, 2022: Online). In a self-assessment tax system where taxpayers calculate and pay their taxes themselves, ethics becomes an important factor. Roth, Scholz, and Witte (1989) identified two key factors of taxpayer compliance: financial self-interest and moral commitment, and these factors indicate that individuals comply with tax laws because it is in their own interest to minimise the tax bill, but also because of the perceived moral obligation to comply. The results of the study by Roth, Scholz and Witte indicated a positive relationship between moral commitment and compliance behaviour. The authors found that ethics has a positive influence on compliance behaviour, more so than financial self-interest. The authors also claimed that a person's ethical standards and beliefs are a good predictor of his or her compliance behaviour, which may, however, change over time.

Another term that can be linked to ethics is "tax morale", that was defined as the intrinsic motivation to pay taxes (Torgler & Schneider, 2007). It is submitted that with strong tax morale, taxpayers have less motivation to under-report their income and over-report their expenses (output tax and input tax) to pay less tax. Strong tax morale therefore builds a positive attitude towards tax. Hardika, Wicaksana and Subratha (2021) in a study: "The Impact of Tax Knowledge, Tax Morale, Tax Volunteers on Tax Compliance", found that tax morale significantly affects taxpayers' compliance. The authors expressed the opinion that taxpayers

with strong morale will not try to avoid the payment of tax, whereas taxpayers who have low tax morale would tend to do so. Therefore, when taxpayers' ethics and morale is strong, their compliance behaviour reflects this.

Taxpayers comply with their tax obligations out of an understanding of the moral obligations they have. Also, because they have strong tax morale, that empowers them to be ethical taxpayers with a positive attitude towards tax.

The following subsection discusses perceptions of equity and fairness as a factor leading to compliance.

2.3.3.2 Perceptions of equity and fairness

The equity principle of a good tax system, according to Stiglingh *et al.* (2024:5), holds that "tax should be fair that is levied based on the taxpayer's ability and capacity to pay". This equity principle was further separated into two dimensions by Smith (1937): horizontal equity and vertical equity. Horizontal equity means that taxpayers with the same income and wealth must pay the same amount of tax. Vertical equity means that taxes payable should increase as income or wealth increases. Horizontal and vertical equity should not affect taxpayers' compliance in an indirect tax system like VAT, however, as all VAT vendors charge VAT on supplies at the same tax rate (unless the supplies are exempt or zero-rated), and consumers pay the tax.

Taxpayers may comply more readily with the tax laws if the tax system is perceived to be fair. According to the OECD (2010), concurred with by Wenzel (2003), there are three areas of fairness: distributive, procedural, and retributive fairness, or justice. Distributive fairness is the perception that the government acts as a good custodian and wise spender of tax revenues. Procedural fairness is the perception that the revenue body adheres to procedures that are fair in dealing with taxpayers. Retributive fairness is the perception that the revenue body is fair in the application of punishment when the rules are broken. Studies show that a lack of fairness is linked to a taxpayer's inclination or justification not to comply.

It is submitted that taxpayers' perception of the fairness of the tax system is driven by the perception they have of government's spending of taxes, and the trust they have in government.

The fair and equitable benefit that taxpayers derive from government in the form of services in exchange for taxes paid in fulfilment of the social contract, could provide motivation for taxpayers to be compliant. This factor, together with perceptions of government spending, have a positive relationship with tax compliance.

When taxpayers perceive the design of the tax system to be fair and equitable, they will be more willing to comply with tax laws. Tax authorities should therefore ensure that they maintain a good relationship with taxpayers and deliver on the social contract, to influence taxpayers' perceptions of equity and fairness and, as a result, enhance compliance.

The following subsection discusses changes to government policies and regulations.

2.3.3.3 Changes to government policies

South Africa's political structure makes government responsible for policy development and implementation through agents like the South African Revenue Service (SARS). According to Palil (2010), political stability and the ruling party in government in a country might have a significant role to play in compliance behaviour. For example, if taxpayers support the current ruling party, their compliance behaviour might be positive because they believe that the party is trustworthy, efficient, and equitable. By contrast, the compliance behaviour of those who view the party less favourably might be negative.

The government's reaction to changing economic conditions of high inflation, and weaker exchange rates, for example, affects the financial stability of citizens and they may develop an attitude of tax non-compliance. This claim was supported in a study by Kim (2008), which demonstrated that tax evasion is influenced by price control, the level of public service, corporate tax collections, Gross Domestic Product (GDP) per capita, the tax system, and the composition of government spending. A high rate of inflation, coupled with an increase in the VAT rate, may adversely affect vendors' compliance behaviour. It may become more lucrative to under-declare output tax or over-claim input tax to meet financial needs.

On the other hand, government's tax relief measures and incentives have the potential to change the taxpayers' attitude to that of compliance.

Unfavourable government policies may therefore have a negative impact on compliance behaviour. Also, taxpayers may comply more readily based on the political party they affiliate with.

The following subsection discusses the impact of referent groups on compliance.

2.3.3.4 Referent groups

This subsection aims to establish whether social interactions with friends, family or other businesses have any influence on taxpayers' compliance decisions. According to Clotfelter (1983), referent groups play an important role in the decision to avoid the payment of tax. This study could not, however, indicate whether the family or friends play a more significant role. Similarly, Allingham and Sandmo (1972) noted that friends and family members sometimes have an influence on the evasion decisions of taxpayers, but their findings do not show the extent to which influence is exerted.

Inasius (2015) expressed a different view that referent groups do not play a role in the compliance decisions of taxpayers. However, in his 2019 study Inasius (2019) arrived at a different conclusion that referent groups do have a relationship with tax compliance and that family and friends can encourage tax compliance. The author identified referent groups as being the most significant factor in determining tax compliance.

It is submitted that taxpayers behave in a certain way if they observe that people who they hold in high regard behave in a certain way. For example, if taxpayers know that many people in groups important to them are tax evaders, their compliance may mirror the behaviour of the group. In the context of VAT, important groups may be other businesses. Equally, social relationships may also help to deter individuals from engaging in evasion in fear of the social sanctions imposed upon them if the evasion is discovered and publicly revealed (Ali, Fjeldstad, & Sjursen, 2013).

Social interactions with family, friends or the business environment may therefore play a positive or negative role in influencing compliance decisions.

This section discussed the impact of social factors on tax compliance. All the social factors of ethics and attitude towards tax, perceptions of equity and fairness, government policies and the influence of referent groups have shown a positive relationship with the tax compliance behaviour of taxpayers.

The following section discusses individual factors and compliance.

2.3.4 Individual factors

Despite referent groups and other factors having a positive influence on compliance behaviour, it is ultimately the individual's personal decision to comply with tax laws. The individual decision can be influenced by various factors.

2.3.4.1 Financial constraints

A person or business in financial distress is more likely to evade tax due to the inability to pay the taxes due. Taxpayers with financial constraints will prioritise what they consider to be their survival needs before paying their tax liabilities. Mohani (2001) stated that people in financial distress are more prone to tax evasion than those with fewer financial problems.

Mohani's view, however, contradicted that of Vogel (1974) and Wärneryd and Walerud (1982), who argued that people with no financial constraints may practice tax evasion to a greater extent than people with financial constraints. It is submitted that people with financial capability may evade tax with no regard to the penalties and sanctions they will face should their behaviour be exposed, as they have the means to use the services of expert advisors and can afford to pay the penalties.

In South Africa, over the years, SARS, with the assistance of the National Prosecuting Authority (NPA), the Hawks and the Special Investigating Unit (SIU), has identified a number of prominent business owners and political leaders who have been involved in tax non-compliance either through tax evasion schemes or who have failed to settle the tax debt owing to SARS. Xulu (in Mail & Guardian, 2024: Online) reported that a successful business owner's home was raided following allegations of a tax debt owing to the value of about R40 million. In the article, the author reported that some of the owner's assets were attached with the

intention to auction them off and recover the tax debt. This is indicative of the fact that tax evasion or failure to comply with tax obligations is not necessarily the result of financial constraints, but for some taxpayers a personal decision.

Financial constraints appear to have a negative impact on tax compliance decisions. Taxpayers with the financial capability may, however, make a personal choice to evade tax.

The following subsection discusses the impact of awareness of tax penalties and fines on tax compliance behaviour.

2.3.4.2 Awareness of penalties and fines

Penalties and fines are imposed on taxpayers for non-compliance and tax evasion in terms of a tax Act. According to Rahmayanti, Sutrisno and Prihatiningtias (2020), tax penalties in the form of fines have an important role in providing lessons for those who violate taxation rules, and taxpayers will comply with taxes if the sanction inflicts financial loss. Also, the authors explained that fines as a penalty are a form of punishment for taxpayers for not complying with their duty to pay tax and that this has been written into the taxation legislation. According to Allingham and Sandmo (1972), as with audits, penalties and fines have a positive influence on compliance. In a study by Rahmayanti *et al.* (2020) on the effect of tax penalties on corporate taxpayers' compliance, it was concluded that penalty sanctions have a positive effect on corporate taxpayers' compliance. Thus, when taxpayers are aware of the sanctions, they will be subject to should they be caught, their compliance behaviour may change.

It is submitted that the higher the penalty rate imposed for non-compliance and the higher the potential for selection for audit, the more likely taxpayers will be discouraged from engaging in tax evasive behaviour, as the cost of non-compliance might be too high. There is therefore a positive relationship between penalties and fines and tax compliance. When the taxpayers are aware of the sanctions, their compliance behaviour may be positively affected.

This section discussed the compliance behaviour of taxpayers from an individual perspective. Financial constraints may have a negative impact on tax compliance, while awareness of fines and penalties may have a positive impact.

The following section discusses certain other factors as determinants of tax compliance.

2.3.5 Other factors

The tax compliance factors discussed below, are factors of a demographic nature and include income level and education. Other demographic factors, such as age or gender, are not discussed as these are factors that cannot be influenced by the Revenue Authorities.

2.3.5.1 Income level

Studies on the relationship between income levels and tax compliance arrived at mixed conclusions (Mohani, 2001). The payment of tax reduces disposable income and can be more burdensome for low-income earners as less disposable income remains to take care of their needs, making them more prone to evade tax. Torgler (2007) concluded that high income earners are likely to be more tax compliant than low-income earners. Contrary to this finding is that of Loo (2006), who found that high income earners are less compliant. In addition, Mohani (2001) claimed that high income earners may evade tax when they believe the income redistribution is not satisfactory, as they believe the tax system is not fair to them. Hofmann *et al.* (2017), having tested a sample of 334 taxpayers across 111 countries, found that there is a significant negative relationship between income level and tax compliance. The researchers concluded that high income earners tend to be less tax compliant than individuals earning a lower level of income.

While this discussion related to individual taxpayers, companies in financial distress may claim fraudulent refunds or otherwise reduce their VAT liability, and the converse may also be true. Very profitable companies may also engage in this behaviour.

It appears that high income earners and profitable businesses may be more prone to tax evasion than those in the low-income bracket. This is possibly because they may be willing to and capable of paying fines and penalties should their non-compliant behaviour be discovered. Those in the low-income bracket may not be able to afford to pay the penalties, hence the decision to be compliant.

2.3.5.2 Education

Theoretically, education equips people with the knowledge to understand how systems work. In the tax context, education plays the pivotal role of providing taxpayers with knowledge about their tax responsibilities and how they can discharge them. Research on the role of education has been done extensively. According to Chan, Troutman and O'Bryan (2000), a higher level of education is linked to a likelihood of compliance. The authors clarified that educated taxpayers may be aware of non-compliance opportunities but have a better understanding of the tax system and, with a higher level of moral development, this may promote a favourable taxpayer attitude, leading to greater compliance. The authors suggested that those with a higher level of education are likely to have a higher level of moral development and higher-level attitudes towards compliance and therefore tend to be more compliant. Also, Mohani (2001) suggested that one of the measures to increase voluntary compliance is by ensuring that taxpayers have a certain level of education, ability, and confidence to exercise their tax responsibilities.

Richardson (2008) held a different view that there is a negative relationship between education and compliance. In a study by Hofmann *et al.* (2017) it was revealed that higher education is associated with better access to information on tax avoidance schemes. The results of the study, using a sample of 341 participants, concluded that there is negative relationship between education and tax compliance, therefore supporting the finding of Richardson (2008).

Notwithstanding the negative relationship discussed above, education has the potential to favourably influence compliance among taxpayers, and the tax authority will have less need to administer fines and penalties.

Tax compliance factors were discussed in this section from the perspective of level of income or profitability and education. The discussion reflects mixed or uncertain relationships between these factors and tax compliance.

2.4 CONCLUSION

Tax compliance in a self-assessment system is impacted by diverse economic, institutional, social, individual and other factors.

The economic factors of tax rates, the likelihood of being subject to an audit, and the nature of government spending affect taxpayer behaviour in both Indonesia and South Africa. High tax rates may encourage evasion, especially among SMEs, to maintain economic sustainability. Reducing tax rates does not always enhance compliance, indicating that economic incentives alone are inadequate. Frequent and conspicuous audits increase voluntary compliance by increasing the perceived risks of discovery (Hazmi & Bretariono, 2022). Thus, robust and consistent audit processes may be a successful strategy to strengthen compliance. Government efficiency and integrity in utilising tax funds is vital. Favourable perceptions of tax spending boosts taxpayers' confidence and trust in the tax system and thus compliance improves, while corruption and mismanagement lower taxpayer morale and increase tax evasion (National Treasury, 2024; Ministry of Finance of the Republic of Indonesia, 2023). This conclusion supports the OECD (2023) observation that institutional trust sustains compliance.

Institutional and administrative variables both influence compliance. The tax authority's role, particularly in tax system design and administration, is central to the compliance attitudes of taxpayers. Moreso, the tax authority has a role to play in mediating trust, including through the respectful treatment of taxpayers to encourage voluntary compliance. Transparent tax administration and simplified tax return submission reduces tax uncertainty, encouraging voluntary compliance. Electronic filing technologies streamline tax processes and improve accessibility (Andini & Rahmiati, 2020). When taxpayers are aware of the possibility of being detected through the audit process, they are more likely to fulfil their tax obligations. Therefore, these factors have a positive relationship with tax compliance attitudes of taxpayers.

Tax morale, or the intrinsic willingness to pay taxes, strongly predicts compliance in both Indonesia and South Africa (Hazmi & Bretariono, 2022). Distributive justice is important because taxpayers who believe that the tax system is fair and equitable are more likely to comply. Unfavourable changes to policies by the government can affect compliance negatively, particularly if the new policies create a financial burden for taxpayers. Finally, literature indicates that referent groups have a role to play in encouraging compliance. Tax compliance is influenced by the social environment of taxpayers. Taxpayers are more likely to be compliant when the cohort of people they look up to or believe in is tax compliant. In the case of businesses, when other businesses in the sector are believed to be non-compliant with their VAT responsibilities, that may influence the compliance attitude of a business.

Factors of individual or business nature were also discussed. It was found that personal or business financial constraints affect compliance negatively. Those with the means and capability to pay tax may make a choice not to be tax compliant and rather pay a fine when their non-compliance is discovered. Conversely, taxpayers with awareness of tax sanctions they will be subject to should they be caught tend to be tax compliant.

Financial hardship reduces compliance because low-income taxpayers or businesses in financial distress prioritise survival above fiscal duties. In contrast, those with high income may be prone to tax evasion, especially when they believe that the tax system is not fair. The level of education that taxpayers have presents an opportunity for tax avoidance. Nonetheless, taxpayer education about tax related matters is shown to have a positive role in tax compliance.

Chapter 2 provided an understanding of factors that affect compliance in a self-assessment environment. The discussion indicates that tax compliance is not only a legal responsibility but also a socio-economic and institutional issue that requires coordinated tax policy solutions.

Chapter 3 discusses self-assessment in detail and the problems that both Indonesia and South Africa have experienced with its application.

CHAPTER 3: THE ROLE OF A SELF-ASSESSMENT SYSTEM IN PROMOTING TAX COMPLIANCE AND RELATED PROBLEMS

3.1 INTRODUCTION

This chapter addresses the second goal of the research by discussing the role of a self-assessment system in promoting tax compliance, and compliance problems that arise due to its use. Each country has a system it adopts for the administration of its taxes to ensure that taxpayers submit their taxes in a convenient and efficient manner. There are two systems that a country can adopt for its tax administration, a self-assessment system, and the “official” assessment system where the tax authority assesses the tax that is due by the taxpayer, or the refund due. Both administrative systems determine how taxpayers fulfil their tax obligation of completing and submitting tax returns. The difference between the two systems is that in the “official” assessment system, taxpayers have the duty to declare all the prescribed information pertaining to their income and expenses (referred to as the submission of the return) for the year of assessment. The tax is then assessed by the Revenue Authority and taxpayers are issued with a notice of assessment indicating the amount of tax due or refundable. A self-assessment system, on the other hand, shifts the responsibility to the taxpayer of submitting the return, and the responsibility to accurately declare income, claim expenses, calculate the amount of tax payable or refundable, and pay the tax that is due. The return submitted under a self-assessment system serves as notice of assessment (Saad, 2014). While self-assessment systems have been widely adopted by countries, various tax compliance problems have been experienced due to its use.

The chapter is divided into five sections. The first section defines a self-assessment system. The second section explains the tax systems adopted in Indonesia and South Africa, and how taxes are administered in each country. The third section discusses the role of self-assessment systems in South Africa and Indonesia, in the context of tax compliance. The fourth section discusses problems associated with the use of self-assessment systems and the effect of those problems on tax compliance. The fifth section discusses VAT non-compliance and fraud in South Africa. The final section provides a summary of the chapter.

3.2 DEFINITION OF A SELF-ASSESSMENT SYSTEM

Self-assessment is a tax assessment system that requires taxpayers to determine their own tax obligations. Nurlaela (2017) defined a self-assessment system as a tax system that gives taxpayers the confidence to fulfil and carry out their tax obligations. Unlike an assessment system where the tax authority calculates the taxpayer's tax liability using the information provided to it by the taxpayer and third parties, a self-assessment system places the burden or responsibility on taxpayers to calculate their tax liability and pay the amount of tax due to the taxing authority. According to Saad (2014), under a self-assessment system, taxpayers assess themselves to tax and pay without enforcement action. The self-assessment system is based on the principle of voluntary tax compliance where taxpayers are responsible for establishing their own tax obligations and then paying and reporting the tax in time (Hardika *et al.*, 2021). Loo (2006) explained that it is based on the notion of voluntary tax compliance to improve tax system efficiency. It can be suggested that self-assessment is also based on the tax authority's trust that the taxpayers will discharge their tax obligations without a reminder or follow up. Fauziati *et al.* (2016) stated that the system is dependent upon the taxpayers' honesty and compliance in reporting their tax obligations. With a self-assessment system, taxpayers have the responsibility of fully understanding the procedures for calculating taxes and the tax compliance regulations (Nurlaela, 2017).

Self-assessment systems have gained global acceptance, as demonstrated by its introduction in various countries around the world (see Table 3.1). The system has been introduced by both developing and developed countries for the submission of tax returns by companies and individuals (Palil, 2010).

Table 3.1: Countries that have introduced self-assessment systems and the year of introduction

<i>Country</i>	<i>Year of introduction for companies</i>	<i>Year of introduction for individuals</i>
Australia	1986/87	1992
Botswana	2002	2002
Indonesia	1983	1984
New Zealand	1988	1988
United Kingdom	1999	1996/97
Malaysia	2001	2004
South Africa	2001	2001
Zambia	1992	1992

Source: Own formulation, based on Palil (2010).

Table 3.1 includes a sample of countries that have adopted self-assessment systems for their tax administration. The table shows the date on which the system was introduced for individual and corporate taxpayers.

3.3 INDONESIAN AND SOUTH AFRICAN TAX SYSTEMS

This section discusses the tax systems adopted by Indonesia and South Africa, including various taxes levied in each country and how the taxes are administered.

Indonesia is the fourth largest economy in the world with a population of over 280 million, and with a land area of about two million square kilometres (Worldometer: Online). The country is on the Asian continent and is divided into 34 provinces. The Indonesian tax system is administered by the Income Tax Law of 1983, as amended, and it regulates various taxes (Table 3.2). Taxpayers in Indonesia are taxed on their world-wide receipts and accruals, and non-residents are taxed on income from a source within Indonesia, including income attributable to permanent establishments in Indonesia (PWC, 2025: Online). Indonesia uses self-assessment systems for both the submission of Income Tax and Value-Added Tax returns. The system was introduced in 1983 and replaced the “official” assessment system. Tax policy implementation and the collection of taxes is the responsibility of the Directorate General of Taxes.

South Africa is a developing country on the African continent. The country has a population of approximately 64 million (Worldometer: Online) and it is divided into nine provinces. The South African tax system is administered in terms of Tax Acts that levy various taxes (Table 3.2). In South Africa, certain taxes are self-assessed, such as VAT, Donations Tax, the Carbon tax, Dividends Tax, and withholding taxes, while other taxes, such as Income Tax and Estate Duty, use the “official” assessment system. Like Indonesia, South African tax residents are taxed on their world-wide receipts and accruals and non-residents are taxed based on receipts and accruals from a South African source (Income Tax Act, definition of “gross income”, section 1, and section 9). The Commissioner for SARS is responsible for the implementation of tax policy, the collection of taxes and ensuring compliance with the tax laws and regulations.

Table 3.2: Summary of key taxes levied by Indonesia and South Africa, rates of taxes and the assessment system for tax reporting

Tax	Rates of tax		Assessment system used	
	Indonesia	South Africa	Indonesia	South Africa
Value-Added Tax	12% (2025)	15%	Self-assessment	Self-assessment
Corporate Income Tax	22%	27%	Self-assessment	“Official” assessment
Personal Income Tax	Progressive scale of 5% to 35%	Progressive scale of 18% to 45%	Self-assessment	“Official” assessment
Withholding taxes (interest and royalties)	20%	15%	Self-assessment	Self-assessment

Source: Own formulation, based on Worldwide Tax Summaries by PWC (2025: Online)

Table 3.2 indicates that all taxes in Indonesia are subject to a self-assessment system, while in South Africa self-assessment only applies for certain taxes. This indicates the key role that a self-assessment system plays in the administration of taxes in Indonesia.

3.4 THE ROLE OF SELF-ASSESSMENT SYSTEMS IN PROMOTING TAX COMPLIANCE

According to Palil (2010), the main objective of the adoption of a self-assessment system by countries is to promote voluntary tax compliance, administrative efficiency, and improve

fairness and equity in the tax system. Also, a self-assessment system seeks to encourage the culture of responsible and honest taxpayers that are up to date with the tax regulations as they periodically engage with their tax affairs.

3.4.1 Self-assessment and the principles of a good tax system

Lymer and Oats (2009) recommended adhering to the four principles of a “good” tax system as described by Adam Smith (1776) in developing a self-assessment system. The four principles of a good tax system are equity, certainty, convenience, and efficiency.

3.4.1.1 Equity

A self-assessment system must be equitable for taxpayers and not affect horizontal or vertical equity. Horizontal equity means that taxpayers with equal economic ability pay the same tax, while vertical equity means taxpayers with more economic capacity pay more (Stiglingh *et al.*,2024). Under a self-assessment system, the equity principle relates to the taxpayer's ability to pay the tax. In a VAT system consumers of goods and services pay the tax, while the vendor collects the tax and pays it to the revenue authorities. From the perspective of the vendor, as the tax has been paid by the consumer, the vendor has the means to pay the output VAT, and thus self-assessment is an equitable system. From the perspective of the consumer, VAT is both horizontally and vertically equitable; consumers acquiring the same goods and services pay the same tax.

3.4.1.2 Certainty

Taxpayers need certainty about *who* should pay taxes, *when* to pay taxes, *how* to pay taxes, *where* to pay taxes, and *how much* tax must be paid. As a result, the design of a self-assessment system requires clear regulations that direct taxpayers in carrying out their responsibilities. Furthermore, the tax system should be simple so that taxpayers can comprehend and calculate their tax burden. In a VAT system, consumers pay the tax when the goods or services are acquired, the amount is paid on invoice, and the tax is reflected on the tax invoice. The VAT Act is clear regarding when vendors pay VAT, how and where to pay the VAT, and how much VAT must be paid. The VAT self-assessment system therefore ensures certainty.

3.4.1.3 Convenience

Taxpayers should find tax compliance convenient. A self-assessment system should simplify tax return filing by, for example, providing information technology tools like an electronic filing system. Thus, taxpayers avoid manually completing and submitting tax returns to the tax office. The payment of the tax on a monthly, quarterly or annual basis, depending on the taxable amount (for example the VAT system in South Africa), as well as the payment of VAT electronically by means of *e-Filing* promotes convenience for vendors. Consumers pay VAT directly on acquisition of the supplies and the VAT system is therefore convenient for them as well.

3.4.1.4 Efficiency

Self-assessment should promote efficiency: the collection cost for the tax authority should ensure that the maximum amount is available for the provision of services for the citizens. In the case of a VAT system, the tax authority incurs no direct collection cost, and the system is therefore efficient

3.4.2 Self-assessment and compliance

A self-assessment system shifts the administrative burden to the taxpayers, who are responsible for the declaration of their income (or VAT output tax), claiming expenses (or VAT input tax), calculating the tax liability, and paying the tax over to the tax authority. In fulfilling this responsibility, taxpayers are required to be honest, and up to date with the tax regulations that assist them to engage with their tax matters. Some taxpayers may view this as an opportunity to manipulate their tax returns or use the services of tax agents to advise them on ways to understate income or claim expenses that they would otherwise not claim. On the other hand, the use of tax agents in a self-assessment system may improve the quality of a tax return that would otherwise contain errors (Hasseldine & Hansford, 2003).

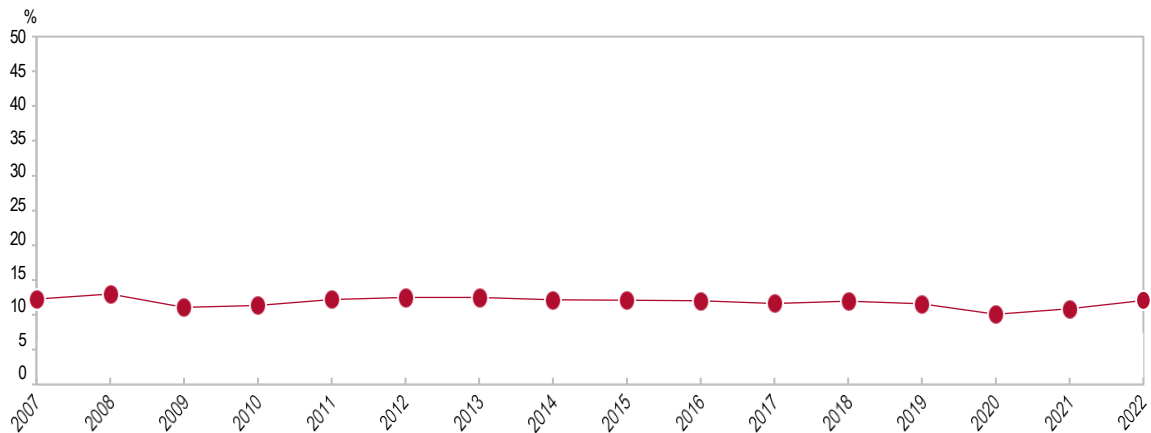
According to research by Mialasmaya and Fitriani (2017), the influence of the self-assessment system on individual taxpayer compliance is significant. The authors concluded that the more freedom taxpayers are given to fulfil and carry out their tax obligations, the more obedient taxpayers will be in fulfilling these tax obligations. Therefore, the system encourages

compliance from taxpayers in the form of the accurate completion of returns and payment of taxes. The authors concluded that the more efficient the system is, the higher taxpayer compliance is. The authors also argued that the implementation of a self-assessment system may cause some taxpayers to feel burdened because of the responsibility placed upon them, especially when they do not understand the tax provisions and rules.

The study by Haqi (2023) concluded that the implementation of a self-assessment system has a positive impact on individual taxpayer compliance in Indonesia. The coefficient of determination of 78% in the study led to the conclusion that the effective installation of the system enhances the compliance behaviour of the taxpayers. Furthermore, the author concluded that the implementation of the self-assessment system, and the taxpayers' level of tax compliance, was good. In this regard, Haqi suggested that the employees of the Bandung Karees Tax Office should be more proactive in promoting, providing information about proper and accurate calculation procedures, monitoring, and enhancing tax programmes, to ensure the influence of self-assessment system on tax compliance of individuals is sustained at or even exceeds 78%.

Despite research findings claiming that a self-assessment system has a positive influence on tax compliance, the claim may not be reflected in the Tax-to-GDP ratio. The Tax-to-GDP ratio is a measure of the relationship of tax revenue to the country's GDP. The Tax-to-GDP ratio in Indonesia has been low and has never reached the threshold of 15% in the last ten years (Figure 3.1). Previous research and reports of the Ministry of Finance in Indonesia, however, show that more than 70% of the revenue of the country came from taxes and 83.2% of taxpayers reported their taxes in 2022 (Ministry of Finance of the Republic of Indonesia, 2023). Zakya (2014) categorized compliance into formal and material compliance. Formal compliance entails the administrative process of completing and submitting the tax return in time, while material compliance means the accurate tax return content. Therefore, the low Tax-to-GDP ratio in Indonesia raises a question regarding the effectiveness of the self-assessment system in the achievement of material compliance, where taxpayers correctly declare their income and claim the correct expenses in order to pay the correct amount of tax, or whether the self-assessment system is only effective in the promotion of formal compliance.

Figure 3. 1: Tax-to-GDP ratio in Indonesia over time



Source: Revenue Statistics in Asia and the Pacific 2024 – Indonesia

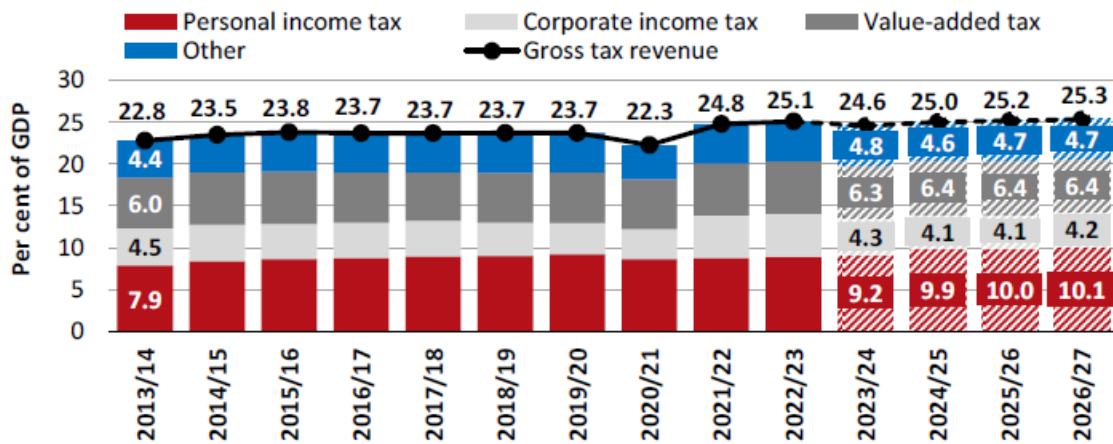
The vertical axis of the graph shows the Tax-to-GDP ratios in percentages, and the horizontal axis of the graph shows the years from 2007 to 2022 when the Tax-to-GDP ratio was measured. The red dotted line in the graph shows the trends of the tax-to-GDP ratio achieved by Indonesia over the years. The graph shows that Indonesia’s Tax-to-GDP ratio from 2007 to 2022 has never reached the level of 15%. This indicates that the self-assessment system is yet to function fully and effectively to increase revenue collection rather than simply promote formal compliance in the form of in-time submission of returns.

The fluctuating Tax-to-GDP ratio in Indonesia could be the result of a tax gap. The tax gap is the difference between the taxes that should be collected under full compliance and the amount collected by the government (Uliarta, in EastAsiaForum, 2024: Online). According to the article, Indonesia’s tax gap in 2019 was reported to be 42% for personal income taxes and 80% for the non-employee income taxes. Thus, the country could only deliver on the social contract with its citizens to the extent of 58% of the potential tax that should be collected from individual taxpayers and 20% that should be collected from corporate taxpayers. The tax gap may also be an indication of low material compliance by taxpayers.

While Indonesia struggles with a low Tax-to-GDP ratio, thus indicating a failure to translate formal compliance into material compliance, South Africa has reported a Tax-to-GDP ratio of over 20% in the last ten years (National Treasury, 2024:33). It could be concluded that South Africa’s tax revenue collection system is more effective than Indonesia’s in that more revenue is collected, relative to GDP. Material compliance is therefore achieved to a greater extent than in Indonesia, and the factor to attribute the higher Tax-to-GDP ratio to may be the use of a self-

assessment system for selected taxes only, unlike Indonesia that has a fully self-assessed tax system.

Figure 3. 2: Tax-to-GDP ratio in South Africa



Source: National Treasury Budget Review, 2024

Figure 3.2 shows South Africa’s Tax-to-GDP ratios from the 2013/14 until the 2022/23 fiscal year. For all the years, the ratios have been above 20%, with a slight increase or decline in some years. As reflected in Figure 3.2, the projected ratio is expected to remain above 20% in the four fiscal years from 2023/2024 onwards.

Libera, in BusinessTech (2024: Online) claimed that South Africa has a 32% tax gap, notwithstanding its positive Tax-to-GDP ratios, and that tax evasion, among other problems, contributes to the tax gap. The article in BusinessTech continued that unpaid tax arrears and late tax returns show widespread tax non-compliance by South African individuals and corporations. The revenue deficit has hampered government assistance for healthcare, education, housing, and energy development. As reported in the article, the Commissioner for SARS believes that decreasing the tax gap could lessen the pressure on National Treasury to find other financing measures to fund budget gaps without increasing tax rates. It is unclear, however, to what extent the tax gap is caused by non-compliance with self-assessed taxes like VAT, or income taxes that follow the official assessment system, or both.

3.5 PROBLEMS THAT ARISE IN A SELF-ASSESSMENT SYSTEM

Notwithstanding the positive role that a self-assessment system can play in tax compliance, the low Tax-to-GDP ratio in Indonesia and the tax gap in Indonesia and South Africa indicate the shortfalls of a self-assessment system that is yet to function as an effective system and result in optimal tax collection by tax authorities and full tax compliance by taxpayers.

In addition to factors influencing tax compliance as discussed in Chapter Two, Palil (2010) claimed that the problems that taxpayers face in a self-assessment system, therefore affecting their tax compliance behaviour, are tax education and tax knowledge, and the complexity of the tax system.

3.5.1 Tax knowledge and tax education

Tax knowledge comprises everything that is known by the taxpayer regarding the general provisions of taxation that are used as the basis for acting, making decisions, and taking certain directions or adopting certain strategies in relation to the implementation of rights and obligations in the field of taxation (Hendayana & Rachmat, 2023). Taxpayers can unintentionally be non-compliant with taxation laws due to a lack of knowledge and education (technical and administrative) about the need to file their tax returns and pay the correct amount of taxes to the revenue authority.

Tax compliance in a self-assessment system, therefore, requires taxpayers to have knowledge about tax related matters, especially the rules and regulations governing the tax system and the importance of paying taxes. Tax knowledge relates to the taxpayer's understanding of the taxation laws and the willingness to comply (Berhane, 2011). According to Mohd (2010), taxation knowledge is necessary to increase public awareness especially in areas concerning taxation laws, the role of national development, and especially to explain how and where the tax revenue collected is spent by the government. Kasipillai (2010) also suggested that tax knowledge is essential in achieving voluntary compliance, particularly in determining the tax obligations in a self-assessment environment.

In the endeavour to ensure that taxpayers are knowledgeable and fulfil their tax obligations as required by law, it is submitted that taxpayers in a self-assessment environment need to have

both legal and administrative knowledge of the tax system. The OECD's *Compliance Risk Management Guidance Note* (OECD, 2004), states there are four broad categories of taxpayer obligation, of which taxpayers need to have knowledge and understanding:

- registration in the system;
- timely filing or lodgement of requisite taxation information;
- reporting of complete and accurate information incorporating good record keeping; and
- payment of taxation obligations on time.

In a modern tax system where taxpayers can file their own returns using self-service portals such as the SARS *eFiling* and *Mobi-App* portals in case of South Africa, tax knowledge clearly plays an important role in enabling taxpayers to fulfil their tax obligations correctly, accurately, and truthfully. The lack of understanding about how to navigate the self-assessment system can lead to incorrect statements being made, incomplete information being supplied, and incorrect amounts of tax being paid, thus leading to unintentional tax evasion. However, Groenland and Van Veldhoven (1983) argued that having extensive knowledge of taxation can have the detrimental impact of low tax compliance if taxpayers use the knowledge that they have acquired to find the loopholes for tax evasion.

For taxpayers to have knowledge of tax and their role in the tax system, they need some form of tax education to understand the taxation laws. Clearly, developing tax knowledge in taxpayers through tax education is an important factor in administering a successful tax system. Erikson and Fallan (1996) explained that tax education can constitute any formal or informal programme organised by the tax authority or independent agencies to assist taxpayers to complete tax returns correctly and to cultivate awareness of their responsibility in respect of the tax system. Palil and Mustapha (2011) agreed that the level of education of taxpayers is important in improving their level of knowledge about issues relating to tax. In addition, the authors believed that to achieve the self-assessment system's objective of voluntary compliance, taxpayers need to be informed and well educated in tax matters, and their tax literacy level needs to be enhanced on a regular basis to keep their knowledge up to date and relevant. Mohani (2003) suggested that initiatives to educate current and future taxpayers about their role in the taxation system and how to fulfil it could be disseminated through various

forms of education such as seminars, dialogue sessions, and collaboration with the Ministry of Education to introduce the subject of taxation in Secondary Schools.

Research on tax compliance has emphasised the importance of tax education and knowledge in a self-assessment system. Also, research on tax compliance provides evidence that tax knowledge has a positive impact on tax compliance attitudes of taxpayers. For instance, Rahayu (2010) indicated that a better quality of knowledge will lead to an attitude of fulfilling obligations correctly in a taxation system that is considered fair. Thus, the knowledge of taxation will affect the compliance of the taxpayer in carrying out his or her obligations and, if taxpayers have tax knowledge, this will affect the tax revenue received by the state. Therefore, it is submitted that the knowledge of taxpayers has a positive and significant impact on their compliance. The greater the knowledge of taxpayers, the higher their reporting compliance, and *vice versa*. This conclusion is consistent with that of Asrinanda (2018), which stated that the higher the level of taxation knowledge, the higher the taxpayer compliance.

3.5.2 Complexity of the tax system

One of the principles of a good tax system is that the tax system should be designed in a manner that it is easy to understand and apply (Stiglingh *et al.*, 2024). The tax system should be easy to use, despite technological and regulatory changes. Palil (2010) asserted that in a self-assessment system, the returns used in the system require some degree of simplicity, as taxpayers have different backgrounds, particularly in relation to education and knowledge of taxes. It is submitted that the Tax Act governing the taxes should also be easy to read and understand, as a fully compliant tax return submission is a result of understanding the rules contained in the Act. Also, complex tax regulation may result in high compliance costs for taxpayers as they find themselves having to employ the services of tax agents to interpret and apply these complex rules in completing their tax return.

The first encounter a taxpayer has with the tax system is registration. Tax registration is a process in which the tax administration collects taxpayer information, such as the name, address, and type of legal identity (Nyamwanza *et al.* 2014). Once all the information is completed and depending on the sophistication of the technological tools in place at the tax office, the system automatically issues the taxpayer with a taxpayer identification number, referred to as NPWP in Indonesia and Tax Number in South Africa. Despite the taxpayer

having tax knowledge regarding the need to register, file, and pay taxes, when the tax system is complex, it is submitted that it could be difficult for the taxpayer to comply with this obligation and that could lead to non-compliance with the primary obligation.

Hoppe *et al.* (2023) stated that Indonesia's tax system exhibits high complexity in both tax regulations and procedures, and this complexity contrasts with the expectation of the OECD (2014) that a developing country should have simple tax regulations. Schipp, Siahaan and Sureth-Sloane (2024), in a Working Paper titled *Determinants of Tax Complexity in Tax Regulations and Tax Procedures – Evidence from a Developing Country*, concluded that tax complexity has become a serious issue in Indonesia and has increased over the past five years.

Tax complexity is defined as a feature of the tax system that arises from the difficulty of reading, understanding, and complying with the tax code, as well as from various issues within the tax framework (Hoppe *et al.*, 2018). Hoppe *et al.* (2023) explained that tax code complexity refers to the complexity that arises from the regulations, and tax framework complexity refers to the complexity that arises from the legislative, administrative processes and features within the tax system. The link between tax complexity and the tax system arises when the rules and procedures governing taxes are complex and, despite the fact that the tax forms that are used to submit a tax return are easy to complete and to calculate the tax accurately, non-compliance can still arise as the taxpayer must first understand and apply the regulations and procedures correctly.

To illustrate the complexity of the rules governing taxes, the South African VAT Act provides an example. It is observed that the Act is very complex to read and understand as most of the sections include cross-references to other sections, using the words "subject to section". Within sections there are exceptions to the general rule, worded "provided that", and sections can also take precedent over other sections, indicated by the word "notwithstanding". Therefore, the correct application of sections that involve these three complexities is dependent on the taxpayer understanding the other section to which it is cross-referenced, or the exception to the general rule. For example, section 18(5) dealing with change in use adjustments, refers to section 17(2) and section 16(3), and section 16(3) also refers to section 15, section 7(1) and section 7(3). The correct application of all the rules requires a taxpayer to have a good understanding of the legislation and the ability to interpret it correctly. In addition, sections can be long and complex. An example of complexity and length in the VAT Act is section 18(5).

After the subsections (a), (b) and (c) of section 18(5), and before the formula, one paragraph consists of 269 words without a full stop, and with six modifying “ifs”. This results in a section that is complicated and difficult to interpret. Difficulty in understanding legislation may have an impact on the accuracy of the tax calculation, as well as the willingness of taxpayers to comply.

According to the Tax Complexity Index (2024: Online), from 2016 to 2022, Indonesia’s tax system ranks high in terms of the most tax complex systems when compared to other countries (Table 3.3). The index range or score zero or one, where zero means the system is not complex and one means it is highly complex.

Table 3. 3: Results of the tax complexity survey

Year	Index range or score		Number of countries surveyed	Country’s ranking of tax complexity	
	Indonesia	South Africa		Indonesia	South Africa
2016	0.48	0.39	100	95	61
2018	0.51	0.39	58	57	26
2020	0.39	0.34	69	45	21
2022	0.44	0.33	64	56	20

Source: Own formulation, based on the Global MNC Tax Complexity Project (2024: Online)

Table 3.3 shows the results of the Tax Complexity survey, comparing South Africa and Indonesia for the years 2016 to 2022, and indicating the overall complexity of the tax code and tax framework. The survey shows that Indonesia’s tax system is complex compared to the South African tax system, as indicated by the index range or score. Except in 2020, Indonesia is in the top quartile of the countries that were surveyed and was shown to have the most complex taxation systems. Other than in 2016, South Africa was ranked below half of the countries that were surveyed, indicating moderate or lower complexity of the tax system. Nevertheless, the ranking indicates that the South African tax system is fairly complex and, bearing in mind that it includes various tax statutes, the VAT tax system is extremely complex.

The complexity of the tax system therefore affects compliance attitudes of taxpayers in a self-assessment environment.

3.6 VAT NON-COMPLIANCE AND FRAUD

South Africa's VAT is regulated by the VAT Act, and it remains the country's most enduring source of revenue, following personal income taxes (Ndlovu & Schutte, 2024a). SARS collects VAT as a broad-based consumption tax charged on the supply of goods or services, on the importation of goods into the country, as well as on importation of services by any person (VAT Act, section 7). VAT accounts for about 26 percent of the total tax revenue, which emphasizes the significance of VAT within South Africa's fiscal system (Hassan, Bornman & Sawyer, 2024). Increased reliance on self-assessment has, however, been associated with reluctance to comply with some form of record integrity (Ojo & Shittu, 2023). Ndlovu and Schutte (2024a) revealed that over 180 000 registered vendors operating within the self-assessment are small businesses, which presents a challenge to SARS to enforce compliance and promote fiscal visibility.

The e-governance system introduced by SARS is commendable, but ineffective registration procedures and entries that are designed to be fraudulent behave as a "virus" within such a system (Mishi & Tshabalala, 2023). According to SARS (2023b: Online), SARS' risk engines detected numerous vendors with malicious intention to abuse the gaps by registering fraudulent companies in the system to be issued with VAT numbers, as well as to fraudulently claim excessive reimbursement of VAT, and this has subsequently led to demands for greater scrutiny of VAT registrations. Ultimately, according to SARS, the minimal set of standards for documentation, as well as insufficient collaborative efforts from other public agencies, are the primary factors that limit the full potential of SARS to register and authenticate taxpayers effectively.

Several VAT fraud cases in different forms were identified by SARS risk engines and verification processes and were concluded successfully with the assistance of the law enforcement agencies including the South African Police Service (SAPS), the Hawks, Asset Forfeiture Unit and the NPA (SARS Annual Report, 2024). One of the most difficult issues in the self-assessment model has to do with refund fraud and the subsequent administrative delays. De la Feria (2019) highlighted VAT refund misuse as a structural weakness of

developing economies due to the filing of VAT reclaim forms with accompanying fraudulent invoices and falsified export documentation. Some examples of VAT fraud follow.

In the matter of *Commissioner for SARS and Sassin and Others*, (6927/2014) [2015] (in Southern African Legal Information Institute, 2015: Online), a claim for R41 million of the initial R65 million was made by SARS against the taxpayer for fraudulently benefiting from a VAT scheme that prejudiced SARS in terms of an amount of R370 million in illegal VAT transactions. The scheme took place between Company A and Company B, represented by Taxpayer A, a sole employee and thirty percent equity holder in the company. Company A was in possession of VAT 103 registration certificate, this certificate is issued to farmers, allowing them to buy animal feed at VAT rate of zero percent. The certificate is, however, limited to only buying for use to feed animals and not for resale or supply in the furtherance of an enterprise. Company B was a buyer and reseller of animal feed, thus its trading stock, and therefore the standard VAT rate applied to its supplies. The fraud in question related to the abuse of the VAT 103 registration certificate by the taxpayers. In an arrangement, Company A would buy animal feed from Company B resulting in both parties accounting for VAT at zero percent due to the VAT 103 registration certificate. In turn, Company B would immediately buy the animal feed from Company A at a discount, a transaction that lacked commercial substance. This created a trade loss for Company A, and Company A would not account for output tax because it was in possession of the VAT 103 registration certificate. The net effect is that Company B had input VAT claimed at standard rate, and this was facilitated by issuance of more fictitious invoices between the two companies. On receipt of the VAT claims, Company B would disburse the refunds to Company A, which would reward Taxpayer A for facilitating the trade relationship, but the payment was made through or to a company owned by Taxpayer A, Company C.

According to the Shepstone & Wylie Attorneys (2016: Online), a taxpayer was sentenced to 20 years after defrauding SARS of R250 million in VAT refunds between 2005 and 2008. The taxpayer set up a fishing company through which he would ask suppliers for quotations and later request invoices with the intent to request financing. The invoices were used to claim input VAT for the supplies that were never made to the company. The refunds were used to buy assets that were registered in a family trust name in which the taxpayer was a trustee and beneficiary.

SARS (2020: Online) reported a case of fraud against a taxpayer for defrauding SARS of R111 million in VAT claims. The taxpayer submitted input VAT claims using invoices in the name of a fictitious company. The taxpayer claimed input VAT for supplies of goods to the company and claimed to have made a supply of the goods to customers abroad. In terms of the VAT Act (section 11(1)(a)), the supply of goods in a manner contemplated in the definition of “exported” is a supply at zero rate. Also, the taxpayers forged the customs documents for their transactions to meet the requirements for zero-rating of the supply of exported goods.

Moonstone Information Refinery (2024: Online) reported the sentencing of a tax fraud syndicate for defrauding SARS of R100 million in VAT claims between 2005 and 2015. The syndicate claimed to be an importer and storer of diesel that was supplied to a filling station. The syndicate claimed input VAT at the standard rate on the imported diesel as a supply in the furtherance of its enterprise, when diesel is a zero-rated supply in terms of section 11(1)(h) of the VAT Act. However, the VAT on importation of goods, as required by section 7(1)(b) read with section 13 of the VAT Act, was correctly not paid as the diesel was zero rated. In addition, the syndicate falsified the invoices in the name of Sasol Oil and Vopak, claiming to have paid a storage fee for which input VAT was claimed.

The non-compliance behaviours referred to above are in contravention of certain provisions in the VAT Act, including those dealing with the zero rating of goods (section 11(1)), the collection of tax on the importation of goods (section 13), the calculation of tax payable (section 16), tax invoices (section 20), and the registration of persons making supplies in the course of an enterprise (section 23). In addition, the fraudulent claiming of VAT refunds constitutes an understatement as defined in paragraph (c) of the definition of an “understatement” in the Tax Administration Act, that is, “an incorrect statement in a return” (section 221). The effect of this would be the percentage-based understatement penalty for intentional tax evasion.

The list of VAT related fraud cases is endless indicating how vulnerable this self-assessed tax has become in South Africa. Hassan *et al.* (2024) report that refund fraud alone was responsible for the loss of R15 billion in the 2022/23 fiscal year, indicating how profound the problem is. It is also noted from the media reports that some fraudulent claims were submitted in collusion with SARS officials who expedited the refund and falsified documents (SARS, 2020: Online).

To balance the need to allow genuine vendors to pay and receive refunds on their invoices and the need to prevent fraudulent refunds constitutes the self-assessment compliance dilemma of the tension between efficiency and control. Mishi and Tshabalala (2023) claimed that the automation of return submissions has not resolved the profound determinants of the under-reporting and selective disclosure of data in VAT reporting.

The difficulty in achieving VAT compliance is further illustrated by the deepening VAT gap, the difference between the expected and the actual collections made. According to Dare (2019), South Africa's tax gap is believed to be between 5 and 6 percent of the total potential revenue, VAT being the most prominent gap. To mitigate these challenges, some scholars advocate for multi-agency data fusion systems integrated with registration, banking, and customs, along with enhanced due diligence (Schoeman, 2022). Passport systems alongside taxpayer profiling systems are other methods that could deter fictitious registrations.

3.7 CONCLUSION

This chapter discussed how the self-assessment system improves voluntary compliance and administrative efficiency, but its effectiveness varies. Despite widespread use of a self-assessment system across all taxes, Indonesia has a low Tax-to-GDP ratio. Taxpayers may file returns on time yet underreport or misreport income, decreasing revenue for the fiscus. South Africa uses a self-assessment system for only certain categories of tax and has Tax-to-GDP ratios higher than 20%, indicating better material compliance, but tax evasion and non-filing contribute to the tax gap and reduce potential tax collections.

The chapter also demonstrated that a self-assessment system needs to be equitable, certain, convenient, and efficient. Where the system does not comply with these principles of a good tax system, this may affect compliance. Inequity is present when taxpayers are not taxed according to their capacity to pay the tax, and unclear and complex laws undermine certainty. Digital filing systems are convenient yet limited by technology. High costs on the part of Revenue Authorities to collect taxes reduce the efficiency of the tax system, but in a self-assessment system these collection costs are at a minimum.

Poor taxpayer education and complex tax legislation were identified as the main problems of a self-assessment system. Too much tax knowledge can, however, also lead to evasion, whereas

inadequate tax literacy may lead to mistakes and inadvertent non-compliance. Tax education in Indonesia and South Africa recognises that public knowledge of the tax system and the role of tax revenue in society is key to compliance. The *Comparative Tax Complexity Index* data show that Indonesia's tax legislation is complex, while South Africa's legislative framework is somewhat less complex.

The chapter also discussed non-compliance due to VAT fraud. A few non-compliance instances were identified and relate to fraudulent claiming of VAT refunds by taxpayers using, *inter alia*, an abuse of the VAT 103 registration certificate that exempts vendors in farming from paying VAT, fictitious companies as vendors, fraudulent import and export documentation. This indicates that the VAT system is vulnerable and has exposed the system's administrative deficiencies that require SARS to reconfigure its due diligence process in the registration and processing of VAT refunds.

Chapters Two and Three provided an understanding of a self-assessment system and tax compliance. Chapter Four explores the measures that both Indonesia and South Africa have adopted to address issues of non-compliance in a self-assessment environment.

CHAPTER 4: MEASURES TO ADDRESS LOW TAX COMPLIANCE FOLLOWING THE INTRODUCTION OF A SELF-ASSESSMENT SYSTEM

4.1 INTRODUCTION

This chapter addresses the third sub-goal of the study and identifies measures adopted by Indonesia and South Africa to address low tax compliance after the introduction of the self-assessment system. The self-assessment system shifts the responsibility of calculating and paying tax to the taxpayer. Thus, taxpayers are directly responsible for making sure that the income they declare is correct, that they claim expenses correctly, and that the tax is correctly calculated and paid in time to the tax authority.

Chapters Two and Three provided the background to the present chapter. Chapter Two discussed factors that influence taxpayers' compliance behaviour in a self-assessment environment from the perspective of economic, institutional, social, individual, and other factors. Chapter Three discussed the self-assessment system in the context of Indonesia and South Africa and its implementation in both countries, together with the problems that these countries have experienced, including VAT-specific problems in South Africa, where it is the main self-assessed tax. Based on the discussion in these chapters and the low compliance rates that are indicated by the low Tax-to-GDP ratio in Indonesia and the tax gap in South Africa, a question that tax authorities must answer is *then what?* As a result, both countries' tax authorities had to strengthen their tax policies, methods, and systems to ensure that there is not only formal compliance, but that material compliance is also achieved, to increase the revenue collection and ultimately achieve a higher Tax-to-GDP ratio. Therefore, this chapter seeks to answer the *then what* research question, by discussing measures that both countries undertook to address the low tax compliance problem.

In addition, further measures to address value-added tax fraud in South Africa that have been recommended by bodies and writers in South Africa are discussed, some of which are controversial and not supported by National Treasury and SARS.

The chapter is divided into four sections. The first section discusses strategies that Indonesia and South Africa have implemented to address low tax compliance. It compares South African and Indonesian taxpayer education and awareness programmes, enforcement and audit

measures, and technological and administrative innovations. The section discusses the South African Tax Administration Act as the legal foundation for regulation and compliance. Lastly, the section discusses Indonesia's *Sunset* policy and *Voluntary Disclosure Programmes* of Indonesia and South Africa, which encourage people to pay the taxes owing.

The second section of the chapter discusses strategies for building a cooperative tax culture as a measure to address low tax compliance and boost taxpayer participation and confidence in the tax system. These include communication and transparency initiatives, taxpayer service quality and support, and dispute resolution and grievance mechanisms.

The third section introduces a further discussion of measures to combat VAT fraud in South Africa, including the introduction in 2023 of estimated VAT assessments, *e-invoicing* based on the European and Italian models as an extension of the *Vat Modernisation Project*, the use of Artificial Intelligence to detect fraud, and a radical suggestion to disallow VAT input tax deductions and rely on VAT output tax.

The final section concludes the chapter.

The discussion in this chapter is aimed at making recommendations that would strengthen self-assessment processes, encourage voluntary compliance, and increase the revenue government needs to carry out their contractual obligations of service delivery to the citizens.

4.2 AN ANALYSIS OF STRATEGIES IMPLEMENTED BY INDONESIA AND SOUTH AFRICA TO ADDRESS LOW TAX COMPLIANCE

This section discusses the tax strategies that Indonesia and South Africa have implemented to improve tax compliance. These strategies include interventions aimed at an understanding of taxes and their importance through taxpayer education and awareness programmes to respond to tax knowledge gaps, enforcement or punitive measures such as penalties and fines for non-compliance, technological and administrative innovations to simplify the compliance process, and tax reforms introduced by both countries.

4.2.1 Taxpayer education and awareness programmes

Both Indonesia and South Africa have introduced rigorous and broad scope organised tax education programmes.

Since 2014, Indonesia has implemented a *Tax Awareness Inclusion Programme*. The programme, known as *Pajak Bertutur*, is a long-term strategy aimed at increasing tax awareness at the primary, secondary, and higher education levels, including teachers and lecturers (Putro & Tjen, 2020). According to the Indonesian Sub-Directorate for Cooperation and Partnership, as noted by Putro and Tjen (2020), the programme is divided into three periods or phases. The 2017 – 2030 phase is the educational period, the 2030 – 2045 period is the awareness period and the 2025 – 2060 is the period of glory. The aim of the Directorate General of Taxes is that, by 2060, Indonesian citizens will have a high level of tax awareness, thus contributing optimally to the welfare of all. From 2021, Indonesia's elementary, secondary, and university curriculum included the *Tax Awareness Inclusion Programme*. Finance and Education Ministries included tax content in civic education to teach students about taxes and their importance in the economy (Ministry of Finance of the Republic of Indonesia, 2023). Tax content was introduced in 30% of Java and Bali schools, affecting 2.3 million children. University courses and the Annual Tax Awareness Quiz (*Lomba Kesadaran Pajak*) attracted over 40,000 educators to capacity building.

The SARS education programme in South Africa aims to provide taxpayers with information that empowers them with a basic understanding of the tax types, how they function, and what is expected of taxpayers to be tax compliant (SARS, 2023a: Online). To cater for the perceived complex tax legislation, SARS has translated concepts into inclusive, easy to read, and accessible educational products that guide taxpayers and ease the burden of compliance (SARS, 2024c: Online).

SARS (2024c: Online) in the Annual Report stated that it has produced the following educational content for taxpayers' consumption:

- *YouTube* content on tax administrative changes;
- regional workshops that address taxpayers' and traders' needs; and
- digital and paper-based tax content emphasising the value of tax.

Furthermore, SARS has partnered with the Department of Basic Education and National Treasury in a fiscal and financial literacy programme using a life experience approach. In terms of this, the Department and SARS aim to inculcate tax morality and fiscal citizenship from an early age among school learners. This initiative is inclusive and caters for both digital and non-digital learners, taking account of the digital footprint in South Africa (SARS, 2024c: Online).

According to SARS (2023a: Online), the *Taxpayer and Trader Education for Learners* programme educates and creates awareness of future taxpayers about taxes and their role in society. The programme primarily targets school learners, and university and Technical and Vocational Education and Training (TVET) college students, as well as administrative staff of these institutions. SARS aims to ensure that learners and students, on entry into the labour market, already understand the value of paying the full amount of tax and the benefits in the form of public goods and services they derive from the payment.

National Treasury (2024) reported, however, that capacity and curricular congestion limited the presentation of the programme to 18% of secondary schools. SARS' involvement was mostly extracurricular, with lectures and workshops. South Africa fell behind Indonesia in the delivery of digital public education material, limiting rural and impoverished access (Naape, 2023). Both countries increased awareness campaign spending between 2020 and 2023, showing institutional commitment to education-based compliance (Mishi & Tshabalala, 2023).

The taxpayer education and awareness initiative supports the literature findings that tax education has a positive relationship with compliance. Structured education improved urban Indonesian taxpayer compliance (Hikmah, Rahman & Dermanto, 2024). Early school tax exposure promoted civic duty and long-term compliance (Nuryanah & Gunawan, 2022). South African findings were more complicated, with schools and teacher training revealing persistent gaps in tax knowledge and weak compliance behaviour among learners (Ndlovu & Schutte, 2024b). Studies found that irregular interventions failed to raise taxpayer awareness, especially among disadvantaged informal sector youth (Matarirano, Chiloane-Tsoka & Makina, 2019).

Experts suggested stratifying tax education by socioeconomic level to boost performance and adapt regional rollouts to local resources (Saputro, 2025). Indonesia broadened its curriculum utilising this measure, while South Africa homogenised and overlooked taxpayer context,

leading to inconsistent results (Darmayasa, Surya & Suardana, 2024). The Indonesian government was more aggressive in teaching tax literacy, revealing that curriculum integration, and regional execution are crucial (OECD, 2023).

4.2.2 Enforcement and audit measures

The mainly positive relationship between audits and penalties and tax compliance was demonstrated in Chapter Two. Indonesia and South Africa have different ways of enforcing penalties, fines, and audits. After 2021, Indonesia's Directorate General of Taxes performed more frequent audits of small and medium-sized businesses (SMEs) and big retail and mining companies that were not following the rules (Ministry of Finance of the Republic of Indonesia, 2023). According to the Ministry of Finance, the audit actions increased by 34% in two years and brought in IDR 7.6 trillion in unpaid taxes. The Directorate General of Taxes changed punishments from harsh to helpful, especially for first-time offenders (Inasius *et al.*, 2020). Indonesia used *DJP Online*¹ to identify risks automatically by looking for differences between reported income and third-party financial data. Even though early identification improved, administrative problems grew, which indicated that taxpayers did not like what they considered to be too much government interference (Saputro, 2025).

SARS (2024c: Online), in the Annual Report, stated in its strategic objectives that it aims to promote fairness and deter non-compliance by monitoring taxpayers' compliance. In the report SARS claimed that the actions taken for non-compliance are proportional to the level, nature and degree of non-compliance, which ranges from "soft" to "hard" enforcement. According to SARS, it built capability and the resources of people, intelligence, data, and skills to detect and investigate non-compliance early and communicate promptly with the taxpayer if non-compliance is detected. Firstly, taxpayers are afforded time and guidance to rectify the non-compliance and, if they fail, SARS takes appropriate action. Moreover, SARS has a data-driven risk "if philosophy", which uses computer algorithms, artificial intelligence, and human curatorship to identify risky taxpayers. These means use source data such as taxpayers' historic SARS data, whistle-blower reports, and third-party data, which are processed to identify if an investigation, audit, or verification of the taxpayer is necessary. Should the results of the risk

¹ *DJP Online* is the Directorate General of Taxes' online application system that taxpayers use to fulfil their compliance obligations in an easy and efficient manner.

identification process indicate non-compliance by the taxpayer, SARS then acts and responds appropriately.

In the Annual Report (SARS, 2024c: Online), SARS' states that the compliance programme has generated revenue amounting to R301,5 billion for the fiscus in the 2024/25 tax year, of which R103 billion came from verifications where risks were identified through the AI driven risk profiling model. According to the SARS Annual Report, more work on data analytics has helped to find taxpayers who are a high risk, and SARS worked closely with law enforcement agencies such as the South African Police Service, the NPA, the Hawks, and the Asset Forfeiture Unit to investigate those guilty of tax offences. The SARS Annual Report confirmed that, to maintain transparency, SARS released compliance verification or criminal investigation results to the public.

South Africa, through the Tax Administration Act, imposes penalties on taxpayers based on their non-compliance behaviour. The penalties imposed in the Tax Administration Act apply to all forms of tax, including VAT and other self-assessed taxes. The first is the administrative non-compliance penalty, which ranges from R250 to a maximum of R16,000 monthly for non-submission of a tax return, and the fine can accumulate for up to a maximum of 47 months when the return remains outstanding (Tax Administration Act, section 211). Sections 216 to 218 of the Tax Administration Act permit taxpayers to apply for the penalties to be remitted, in the case of failure to register, nominal or first instances of non-compliance, and in exceptional circumstances. The second is a fixed percentage penalty of 10% of the amount of tax that is paid late. The third is an understatement penalty that is imposed for any underpayment of tax due to any of the actions listed in section 221 of the Tax Administration Act. Section 221 states:

- 'Understatement'** means any prejudice to SARS or the *fiscus* as a result of –
- (a) failure to submit a return required under a tax Act or by the Commissioner;
 - (b) an omission from a return;
 - (c) an incorrect statement in a return;
 - (d) if no return is required, the failure to pay the correct amount of 'tax'; or
 - (e) an 'impermissible avoidance arrangement'.

The understatement penalty is levied at up to 200% of the underpaid tax, depending on the offence and its severity (Tax Administration Act, section 223).

These enforcement measures support audit systems applied to reduce non-compliance, but some problems emerged. Hikmah *et al.* (2024) contended that while fair, proportional and consistent control is necessary for effective enforcement, it may unintentionally heighten detection anxiety among taxpayers who fear being unfairly targeted or penalised. A compliance-focused culture in Indonesia did not punish minor crimes (Nuryanah & Gunawan, 2022). South Africa's tough enforcement worked in the short run, but was mistrusted (Ndlovu & Schutte, 2024b).

South Africa uses threats and sanctions to force compliance, while Indonesia uses remedial and corrective policing to promote compliance (OECD, 2023). Both countries improved their tax compliance measures, but Indonesia encouraged long-term taxpayer collaboration (Hazmi & Bretariono, 2022). It is submitted that enforcement and audit measures should be more remedial than punitive in nature and to achieve this, enforcement should balance education, procedural fairness, and supportive measures.

Visser, in Moneyweb (2025a: Online) reported under the title “Faster audits but a tougher SARS”, on the PricewaterhouseCoopers (PWC) *Taxing Times 2025* survey:

The South African Revenue Service (Sars) has become more agile, but also more demanding and “information-rich”. The latest PwC Taxing Times survey shows that although there are signs of progress with faster turnaround times and greater use of data by Sars, there are also “persistent concerns” about procedural fairness, consistency and communication.

Rossato, tax controversy and dispute resolution leader at PWC, in Moneyweb (2025a: Online), concluded that: “These results suggest that, while longer audits remain a concern for some taxpayers, Sars is making incremental progress in reducing extended audit durations and improving overall efficiency.” Visser (Moneyweb, 2025a) highlights the need to balance enforcement with transparency and support.

The PwC survey revealed (Moneyweb: 2025a) that fewer penalties were issued in 2025, with 30% of participants having reported receiving a penalty compared to 37% in the previous year, and concluded that SARS had adopted a more assertive stance towards non-compliant

taxpayers, which is evident from stricter enforcement of timelines and a zero-tolerance posture in cases of default.

4.2.3 Technological and administrative innovations

The discussion of factors related to tax compliance in Chapter Two established a positive relationship between the modernisation of tax systems and tax compliance. Indonesia and South Africa enhanced voluntary compliance with the self-assessment system using digital technologies and administrative changes, which were aimed at modernising tax systems and improving accessibility for taxpayers. According to the report of the Ministry of Finance of the Republic of Indonesia (2023), by 2022 Indonesian urban taxpayers and SMEs had used the *M-Pajak* mobile platform, the Directorate General of Taxes' *DJP Online* system, and the improved *eFiling* system of the Directorate General of Taxes. The Ministry of Finance further reported that taxpayer registration using digital platforms increased by 48% between 2020 and 2023, and the average tax return submission time dropped from 45 minutes to under 20 minutes. Over 12 million taxpayers used mobile platforms for digital services and enquiries in 2022, and local tax offices became service-oriented, with 30% of staff working online (Inasius *et al.*, 2020).

South African technology initiatives involved SARS's *eFiling* and *MobiApp* platforms. One of the strategic objectives of SARS is to provide equitable access to service channels and seamless interactive service from registration, filing, declaration, payment and deregistration, using mainly its self-service channels in an easy, cost-effective, and convenient manner (SARS, 2024c: Online). According to the SARS (2024c: Online), taxpayer buy-in to the use of digital tools to meet their tax obligations has improved from 86.31% for the 2020/21 fiscal year to 88.49% in the 2023/24 fiscal year. SARS (2024c: online) stated that SARS' online interface now incorporates biometric verification, rapid refund computation, and pre-populated taxpayer forms, and provisional and low-income filers file 35% more quickly and simply. The Report continued that information technology administrative changes created regional *eCentres* from branches, with a reduction of 60% of walk-ins at branches. However, low literacy and connectivity issues have caused limited access to these tools in rural provinces like Limpopo and the Eastern Cape, thus impeding compliance by taxpayers in both provinces (Matarirano *et al.*, 2019).

Hikmah *et al.* (2024) found that digital platforms increased compliance in Indonesia. In South Africa, SMEs were reported to have fewer errors using pre-filled forms (Ndlovu & Schutte, 2024b), and Mishi and Tshabalala (2023) reported that digital use increased tax administration efficiency and transparency in the compliance process. Research, however, cautions against overusing digital technologies without addressing infrastructure inequality. Digital exclusion may worsen tax disparities for impoverished or illiterate taxpayers (Saputro, 2025). Digital system issues caused higher walk-in complaints at rural South African tax offices (Ndlovu & Schutte, 2024b). First-time Indonesian e-filers misinterpreted automated instructions, delaying returns (Nuryanah & Gunawan, 2022).

Administrative simplification has its advantages and disadvantages. In Indonesia, simplifying procedures reduced paperwork but raised taxpayer concerns about losing their authority to calculate their tax liability (Darmayasa *et al.*, 2024). South African SMEs' VAT responsibilities were frequently overstated by system overrides, eroding faith in automation (Ndlovu & Schutte, 2024a). The OECD (2023) stated that proactive taxpayer support, like the Indonesian Directorate General of Taxes' live chat advisers, helped to restore customer confidence.

South Africa and Indonesia both digitalised their tax administration, but integration and public opinion differed. Retraining and digital helpdesks popularised Indonesia's user-centric solutions (Hazmi & Bretariono, 2022). South Africa's innovations improved efficiency but not equity or access, and thus increased compliance was not achieved (Mishi & Tshabalala, 2023). It is suggested that the use of information technology in a tax system should be supported by ensuring equitable internet access and digital literacy so that taxpayers in rural and remote areas are not excluded. Furthermore, leveraging from flexible administration and taxpayer education has the potential to improve digital compliance.

4.2.4 The South African Tax Administration Act

The South African Tax Administration Act was introduced on 1 October 2012 as a major change to the country's tax system. It created a comprehensive set of rules for the administration of the tax system, providing for enforcement and conflict resolution. The Tax Administration Act applies to all types of tax, including VAT and other self-assessed taxes. The Act makes it clear what taxpayers must do, and what rights and obligations they have. The goal of the Act was to increase transparency and promote voluntary compliance (Government Gazette, 2021: Online).

The Tax Administration Act also seeks to eliminate duplication of administrative provisions, remove redundant provisions, facilitate, and improve compliance, provide consistent application of the law, and reduce the administrative burden and the cost for taxpayers to remain compliant (Government Gazette, 2022: Online). According to National Treasury (2024), the Tax Administration Act streamlined SARS' tax collection, audits, complaints, and appeals. Fines and interest discourage disobedience and encourage timely filing of tax returns and tax payments.

The Tax Administration Act enhanced penalties for late submissions, under-declarations, and non-payment in terms of sections 210 to 223. For example, section 210 deals with administrative penalties for non-submission of tax returns, section 213 introduces fixed percentage penalties of 10% for late payments of taxes, and section 223 provides for understatement penalties of up to 200% depending on the severity and recurrence of non-compliance (Government Gazette, 2021: Online). Following international best practice, proportional responses to non-compliance ensured justice and deterrence (Mishi & Tshabalala, 2023). SARS' audit resources were limited, however, and they targeted small businesses and informal sector players (Ndlovu & Schutte, 2024b). Nevertheless, SARS' use of AI-driven data analytics enabled SARS to identify high-risk taxpayers and assisted to optimise audit resources (SARS, 2024c: Online).

The actual impact of the Tax Administration Act is mixed. While the legislative measures improved formal compliance, including timely filing, material compliance in the form of accurate income declaration and payments remained a challenge (Ndlovu & Schutte, 2024b). Low audit coverage, checking only a small percentage of returns annually, limited the deterrent success (National Treasury, 2024). In rural and historically disadvantaged communities, logistic and administrative obstacles impeded SARS operations (Matarirano *et al.*, 2019).

Chapter Two identified that taxpayer perceptions of fairness also influenced compliance. Many taxpayers did not trust SARS when enforcement was perceived as harsh or administration as inconsistent (Hazmi & Bretariono, 2022). Communication, transparency, and taxpayer assistance, however, promoted voluntary compliance (Hikmah *et al.*, 2024). SARS addressed these challenges with community outreach and digital channels, but digital literacy and infrastructure inequalities in South Africa limited access, particularly in provinces such as Limpopo and the Eastern Cape (OECD, 2023).

The Tax Administration Act modernised South Africa's tax administration by laying the groundwork for enforcement, audits, and dispute resolution. Insufficient administrative capability, unequal audit coverage, and variations in taxpayer behaviour linked to income levels (for example, lower compliance among informal sector taxpayers compared to formal and higher income taxpayers) hampered its success (Mishi & Tshabalala, 2023). The Tax Administration Act simplified requirements and established enforcement processes, but institutional capacity, fair enforcement, and taxpayer education were needed to close the compliance gap (National Treasury, 2024).

4.2.5 Indonesia's *Sunset Policy* and both countries' *Voluntary Disclosure Programmes*

According to Ngadiman and Huslin (2017), Indonesia's *Sunset Policy* is a compliance strategy that aims to encourage voluntary compliance without fines, penalties or interest imposed for non-compliance, with the intention to broaden the tax base. Implementation of the *Sunset Policy* commenced in 2007, with the intention of encouraging taxpayers to comply voluntarily with the tax regulations and, in turn, be pardoned by the removal of administrative sanctions, thus making compliance affordable for taxpayers. Under the policy, SMEs and individuals with compliance gaps submitted more voluntary tax disclosures (Ministry of Finance of Indonesia, 2023). The *Sunset Policy* also enhanced revenue and broadened the tax base by encouraging cooperation by taxpayers (Inasius *et al.*, 2020). According to a meta-analysis by Titailla and Fidiana (2022), it was found that, much as the policy increased revenue collection and taxpayer cooperation, it is not a long-term solution to address non-compliance behaviour in Indonesia. The authors concluded that, in the long run, its regular implementation might not encourage tax morale among taxpayers. Also, Torgler, Schaltegger and Schaffner (2003) held the view that the regular use of the policy may expose government as weak in enforcing a good tax system and thus losing taxpayer trust.

Hermawan *et al.* (2020) and Titailla and Fidiana (2022) explained that the *Voluntary Disclosure Programme* (also referred to as a Tax Amnesty) was Indonesia's second tax reform that sought to optimise tax revenue. The policy was implemented for the first time in 2016 and then again in 2022. The programme aimed to encourage taxpayers to declare the income and the assets (wealth) that they own and that are held in low or tax-free jurisdictions. In return,

these taxpayers are not subject to fines and penalties, or criminal sanctions for their tax evasive behaviour.

In addition to not being subject to penalties, taxpayers would be taxed on a fixed amount of the unpaid taxes owing to the tax authority instead of the full amount being payable at the declaration stage, thus paying less tax than they would in a normal tax compliance process. For example, in the 2016 program, Indonesia's tax authority only recovered 0,5% of the unpaid tax on undeclared assets by SMMEs, 2% of the unpaid tax on undeclared assets by other non-SMME taxpayers and 3% of unpaid taxes in respect of foreign assets for repatriation (Khan & Nuryanah, 2023). It is submitted that the programme had three benefits for participant taxpayers: they were not subject to fines and penalties for non-compliance, paid less tax than they would have paid in a normal compliance process, and there were no criminal sanctions for tax evasion. In 2022 the programme was reinstated by the tax authority to target more non-compliant taxpayers.

A study by Fardius (2023), analysing the effectiveness of the 2022 *Voluntary Disclosure Programme* in Indonesia, revealed that the 2016 programme had 82 456 participants while the 2022 programme had 225 603 participants. However, revenue collection trends compared to taxpayer participation in the programmes indicated that, while the 2016 programme had fewer participants, higher-value assets were declared, resulting in greater revenue collection. Conversely, the 2022 programme attracted more participants, but many declared only a part of their wealth, possibly in anticipation of future amnesties. Both programmes benefitted the tax authority financially through unpaid tax recovery and a broadened tax base, but Indonesia's Tax-to-GDP ratios in both periods remained at 10.4%.

National Treasury (2016) stated that South Africa introduced the *Special Voluntary Disclosure Programme* for the first time as a special relief measure for taxpayers who willingly regularised their tax affairs by disclosing their tax arrears, offshore assets, and income. The programme was to operate for six months beginning 1 October 2016. The purpose of this programme was to align with SARS' strategic intent of promoting voluntary compliance while reducing the cost of compliance for taxpayers, with taxpayers not facing criminal prosecution for their transgressions. The programme broadened the tax base, recovered revenue, and encouraged voluntary compliance through transparency incentives and penalty reduction.

In 2022, in terms of the Tax Administration Act, SARS made this programme permanently available for qualifying taxpayers (SARS, 2024d: Online). Through the programme, SARS has received and processed 1 475 applications from which R3,4 billion in tax debt accrued to SARS; R3.3 billion was collected immediately, and the balance deferred to be collected through instalment payment arrangements with the taxpayer (SARS, 2024c: Online).

According to the Ministry of Finance (2023), Indonesia's *Sunset Policy* and *Voluntary Disclosure Programmes* increased tax registrations, return submissions, and payment rates during active programme years. Non-threatening measures increased taxpayer knowledge and preparedness to interact proactively with tax officials (Inasius *et al.*, 2020). The South African *Voluntary Disclosure Programme* improved arrear collections and strengthened taxpayer-government relations, although scholars caution that long term behavioural effects require monitoring (Mishi & Tshabalala, 2023). Both countries demonstrated that voluntary disclosure can be effective but requires tough enforcement, taxpayer education, and technology to sustain compliance (Saputro, 2025). It is submitted that these programmes demonstrate how policy innovation and the resulting taxpayer reaction can help to address non-compliance problems, including in a self-assessment tax system.

Reporting on the PWC *Taxing Times 2025* survey, Rossato, in Moneyweb (2025a) highlighted a shift in SARS' approach when considering *Voluntary Disclosure Programme* applications. She reports (Moneyweb, 2025a: Online) that: "Rejections are increasingly due to refund positions and recent defaults, marking a departure from previous years where voluntariness and completeness were the primary barriers."

Clearly, strategies in both countries have assisted tax authorities with the recovery of tax, and the programmes and may be seen as incentives for taxpayers to "come clean" and buy into compliance mechanisms. According to Inasius *et al.* (2020), however, these strategies have rendered the existing enforcement strategies ineffective, thus undermining their credibility. Furthermore, the *Voluntary Disclosure Programme* strategy does not appear to be a permanent solution for tax compliance, as taxpayers may deliberately default on their tax obligations and not declare assets with the hope that they will utilise the next programme (Darmayasa *et al.*, 2024).

Despite these reforms to the tax system, tax compliance challenges remain, and tax authorities will continuously have to think of new tax policies to implement to encourage tax compliance. The following section discusses strategies that tax authorities have used to enhance taxpayer engagement and trust.

4.3 ENHANCING TAXPAYER ENGAGEMENT AND TRUST

This section discusses measures undertaken by both countries to promote engagement and trust between the tax authority and taxpayers. As was established in Chapter two, for compliance to be achieved, in addition to the deterrence measures, incentives and the legislative framework in place, a tax compliance culture and trust must be established among the taxpayers. Inasius *et al.* (2020) also suggested that trust plays a key role in the engagement between tax authority and taxpayers for both parties to mutually benefit from the tax system. This tax compliance culture and trust in the tax authority is facilitated by continuous and transparent communication between the taxpayers and the tax authority, quality service and support, and tax dispute resolution and grievance mechanisms. Therefore, tax authorities as the custodians of tax compliance, must find ways to establish that culture and ensure cooperation from the taxpayers.

4.3.1 Taxpayer communication and transparency initiatives

Indonesia and South Africa have designed communication plans to clarify tax rules, revisions, rights, and duties. The Indonesian Directorate General of Taxes uses social media to communicate effectively, consistently, and swiftly. Combating misinformation and educating taxpayers was essential for voluntary compliance with the self-assessment system, which relies on user initiative (Inasius *et al.*, 2020). In addition to digital innovations, the Directorate General of Taxes reached “hard-to-reach” people through village gatherings, community radio shows, and local government (Ministry of Finance of Indonesia, 2023). These multi-channel messages provided information regarding the government's transparency and the fairness of tax to build trust.

SARS disseminated information to taxpayers about tax laws, deadlines, and consumer rights via SMS, email, and the internet (National Treasury, 2024). SARS surveys taxpayer satisfaction annually. SARS personalised communication campaigns to taxpayer needs (Naape, 2023). SARS disclosed audit results, enforcement strategies, and tax collection data to be more

transparent (SARS, 2024c: Online). Thus, openness aimed to increase voluntary compliance by making tax officials more trustworthy and lowering fears of unfair enforcement.

Given the geographical context of both countries, it can be assumed that this large communication endeavour is still limited in its reach. Due to infrastructure, literacy, and technology challenges, remote and poor areas in both nations had difficulty in getting tax information (Hikmah *et al.*, 2024; Hazmi & Bretariono, 2022). Although Indonesian studies reported that 60% of rural taxpayers comprehended tax messages compared to over 85% of urban taxpayers, the overall finding still highlights a significant urban-rural divide in access to and understanding of tax communication (Inasius *et al.*, 2020). South Africa has difficulties contacting rural taxpayers due to the many languages used in South Africa, and inadequate internet access. According to the OECD (2023), only 55% of taxpayers in low-resource areas like Limpopo and the Eastern Cape used SARS digital tools properly. Inadequate information sharing therefore hampered tax compliance.

Communication efficacy was also affected by culture. Even if communication improved, the citizens of both nations believed that the government was dishonest and distrusted it, making openness less effective (Hazmi & Bretariono, 2022). Some questioned official messages due to severe and unexpected enforcement. Researchers stressed the need for strong communication and fair enforcement to build confidence and compliance (Mishi & Tshabalala, 2023). Culturally relevant and area-specific messaging were also stressed. National Treasury (2024) stated that indigenous language-speaking community contact officers and traditional elders helped rural South Africans understand and agree with taxes. Working with local leaders and faith groups helped people to understand and obey the rules, according to the Indonesian Ministry of Finance (2023).

The digital divide, however, persisted. Digital communication efforts in cities were successful, but they did not reach taxpayers without internet access or technology skills, notably older citizens and informal sector workers. Digital isolation makes people distrust tax inspectors and less inclined to respect the rules (Hazmi & Bretariono, 2022). Both countries compensated with online and offline interactions like face-to-face meetings, printed documentation, mobile tax offices and community radio shows. Mixed approaches satisfied more taxpayers and reached more taxpayers (Inasius, *et al.*, 2020).

Indonesia and South Africa improved public communication and transparency. Empirical studies such as that of Inasius *et al.* (2020), Timothy and Abbas (2021) and Saptono *et al.* (2023) found that fair access, cultural adaptability, and credible regulation supported these strategies. Infrastructure and socioeconomic concerns that persist indicate that both countries need a coordinated, multi-channel approach to engage all taxpayers and build a beneficial tax culture across all ages.

4.3.2 Improving taxpayer service quality and support

South Africa and Indonesia have made significant investments in the quality and accessibility of taxpayer services, acknowledging that taxpayer experience affects compliance behaviour. Hadiwibowo, Jufri and Lusiyana (2023) confirmed that by setting up dedicated helpdesks, providing customer service training to employees, and employing the Directorate General of Taxes *DJP Online* live chat function, Indonesia's Directorate General of Taxes enhanced the calibre of services provided by its tax offices. This was substantiated by actual data showing a 15% reduction in tax filing errors and a 25% reduction in resolution time. The authors found that these measures directly reduced taxpayer operating limitations and allowed for quick query and error resolution. Additionally, the reorganisation sent mobile service teams to remote locations to help rural taxpayers with infrastructure and logistical challenges (Inasius *et al.*, 2020).

In South Africa, SARS increased taxpayer service by expanding contact centre capabilities, enhancing the *eFiling* system usability, and training frontline personnel to improve professionalism, responsiveness, and customer interaction quality (Naape, 2023). Improved user interfaces and customer service increased first-time filer trust while decreasing unintentional non-compliance caused by procedural mistakes (Ndlovu & Schutte, 2024b). Between 2020 and 2023, these service enhancements boosted the number of timely tax returns by 12% and reduced late payment penalties by 9%, thereby improving compliance (SARS Strategic Plan, 2020/21 – 2024/25: Online). SARS sets up mobile units and community seminars to assist taxpayers in impoverished regions (Mishi & Tshabalala, 2023).

These developments did not solve the service quality and accessibility disparities, however. Taxpayer assistance was delayed in both countries' underserved provinces due to infrastructural, staff, and training challenges (OECD, 2023). Provinces outside of Java and

Bali, particularly in Eastern Indonesia, have longer wait times and more unanswered requests within typical response periods (Wahyuni & Sumantri, 2023). Rural South African locations, notably Limpopo and the Eastern Cape, have lower service satisfaction due to infrastructure and human resource deficiencies (Matarirano *et al.*, 2019). These difficulties demonstrated that service benefits were unevenly distributed, and marginalised areas are yet to benefit from service quality improvements (Hikmah *et al.*, 2024).

Studies emphasised the importance of tailored help for a variety of taxpayer needs. If SMEs and informal sector taxpayers did not receive adequate assistance with complicated self-assessment processes, compliance risks increased (Hazmi & Bretariono, 2022). Integrating taxpayer education into service delivery frameworks improves capacity and reduces mistakes (Htay, 2023). Integration boosts taxpayer confidence and trust, which are essential for a cooperative tax culture (Darmayasa *et al.*, 2024).

While encouraging, developments in digital service delivery created new issues. In both Indonesia and South Africa, many procedures were simplified by online platforms, but vulnerable taxpayers still required in-person assistance due to digital literacy gaps and infrastructure limitations (Yossinomita *et al.*, 2025). This dependence overburdened physical offices and created bottlenecks, particularly in remote and poor areas (Saputro, 2025). Evidence suggests that promoting digitisation, without assisting non-digital users, risks alienating taxpayer groups and jeopardising compliance goals (Nuryanah & Gunawan, 2022). It is therefore submitted that balanced service delivery models that combine digital convenience with in-person assistance should be focus areas.

Indonesia and South Africa demonstrated that improving taxpayer service and support lowered compliance costs while increasing taxpayer confidence in self-assessment systems (Kislina & Wijaya, 2022). Despite advancements, service access and quality disparities necessitate ongoing infrastructure improvement, personnel capacity training, and inclusive service design investments (Hikmah *et al.*, 2024). This is critical for maintaining compliance improvements and building a cooperative tax culture based on positive taxpayer experiences (Mishi & Tshabalala, 2023).

The PWC *Taxing Times 2025* survey (Moneyweb, 2025a) revealed that trust in SARS appears to have improved, with 51% of respondents reporting that their level of trust has remained

unchanged, up from 46% in 2024. Ongoing concerns remain, including SARS missing its own deadlines, slow dispute resolution with repeated information requests, and minimal feedback. Taxpayers feel there is a lack of fairness and accountability in assessments. The overall sentiment is that although there is trust in systems, execution is inconsistent. Good service is “rare”, with many taxpayers feeling that service delivery has stagnated.

4.3.3 Tax dispute resolution and grievance mechanisms

In Indonesia and South Africa, effective tax complaint processing has earned taxpayer trust and compliance. Timothy and Abbas (2021) submit that when taxpayers perceive the tax system as fair, accessible, and efficient, their willingness to comply improves, particularly under a self-assessment system where taxpayers must supply accurate information. Indonesia streamlined conflict resolution to cut court expenses and time, and mediation and taxpayer representation at hearings are examples of this (Inasius *et al.*, 2020). These advances allowed the Directorate General of Taxes to offer *Alternative Dispute Resolution* tools to encourage official communication between citizens and tax officials before the court hearing. The Indonesian Ministry of Finance (2023) found that these methods resolved issues 20% faster and made taxpayers happier. These measures also sought to calm taxpayers’ fears and encourage teamwork instead of animosity, which has been shown to reduce voluntary compliance (Hazmi & Bretariono, 2022).

In South Africa, the Tax Administration Act introduced complaint and appeal processes, and developed a comprehensive framework to protect taxpayer rights and streamline administration. This Act created independent tax tribunals and allowed courts to review tax determinations. It created implementation checks and balances. SARS formed internal conflict settlement divisions to speed up cases and give taxpayers clear instructions. Naape (2023) highlighted that these official approaches promoted voluntary compliance because they strengthened taxpayer trust in the process and reinforced perceptions of fairness. Complex procedures and significant backlogs, however, still plagued people without legal knowledge or resources (National Treasury, 2024). At times, taxpayers did not file official complaints because they feared extended decision delays (Mishi & Tshabalala, 2023). In such cases, some taxpayers resorted to negotiating informally with SARS officials or seeking private intermediaries to settle matters outside the official channels, which undermined the

transparency and consistency in dispute resolution (SARS Strategic Plan, 2020/21 – 2024/25: 2020).

Despite advances, both countries' conflict settlement procedures shared similar core difficulties. Indonesia's tax administration and regional capabilities affected regional dispute resolution. Poor settlement services negatively affected rural taxpayers (Nuryanah & Gunawan, 2022). South Africa had trouble finalising tax cases on time due to resource restrictions, especially in underdeveloped regions, and these problems affected low-income and small-scale taxpayers more particularly, making them mistrust the system's fairness and balance (Matarirano *et al.*, 2019).

Online objection filing and status checking in Indonesia's online system and SARS's *eFiling* platform decreased administrative expenses and enhanced taxpayer involvement (Ministry of Finance, 2023; National Treasury, 2024). Streamlining processes, educating taxpayers, and adopting digital technologies to increase transparency were recommended (Hikmah *et al.*, 2024).

Public support groups and practitioners emphasised open communication during dispute resolution. Regular case updates and clear explanations of taxpayer rights and procedures are required (Hazmi & Bretariono, 2022). Both countries supported programmes to educate residents and make conflict resolution officers more empathetic. According to Hadiwibowo *et al.* (2023), these measures enhanced taxpayer satisfaction and decreased complaints about inappropriate or biased decisions. Marginalised groups were, however, hard to contact since they did not know their rights or could not afford official settlements (Darmayasa *et al.*, 2024).

Effective and fair settlements restore taxpayer trust and encourage voluntary compliance. Unresolved grievances or systemic injustice might cause resistance, avoidance, or lawsuits (Inasius *et al.*, 2020). Scholars recommended including dispute resolution in compliance management and tailoring it to match taxpayer needs (Yossinomita *et al.*, 2025). Digitisation improves taxpayer services and conflict settlement in Indonesia and South Africa. They still, however, faced structural and investment-related problems.

Setting up and improving tax conflict settlement and complaints mechanisms in Indonesia and South Africa improved taxpayers' faith in fairness and justice, making the tax partnership more

effective. Problems with complicated procedures, limited administrative resources, and fair access persisted, especially for the marginalised. To leverage the benefits of conflict settlement mechanisms in self-assessment tax systems, future tax reforms should streamline processes, promote accessibility, and empower taxpayers to participate more actively in dispute resolution and compliance monitoring processes.

4.4 FURTHER MEASURES TO ADDRESS VALUE-ADDED TAX FRAUD

VAT fraud involves a significant loss of revenue to the *fiscus* in South Africa, the most damaging, it is suggested, being fraudulent VAT refunds. This type of VAT fraud includes “fictitious Vat registrations’ of companies that were merely created to obtain significant fraudulent Vat refunds” (Visser, in Moneyweb (2025b: Online). PKF (Moneyweb, 2025b: Online) revealed that SARS paid refunds of R447.7 billion for the 2024/25 fiscal year and prevented the outflow of R146.7 billion of impermissible refunds.

A recent measure to increase SARS’ powers to address VAT non-compliance was reported on in Interguest (2023: Online):

[O]n 11 December 2023 SARS introduced estimated assessments for VAT, reinforcing compliance measures for vendors. SARS has the authority to request relevant material to verify a vendor’s VAT201 return. If a vendor fails to respond to multiple requests from SARS or submits inadequate documentation, SARS can issue an estimated assessment under section 95(1)(c) of the Tax Administration Act, on a VAT217 form, which is a calculated tax liability based on available information.

PKF (Moneyweb, 2025b: Online) referred to the *Vat Modernisation Project* that was first mentioned in 2023. The 2025 draft Taxation Laws Amendment Bill, 29 of 2025, proposed amendments to the VAT Act to introduce specific definitions dealing with *e-documents*, *e-invoices*, *e-credits* and *e-reporting*, and a definition of an interoperability framework. This was to make it possible to share information between vendors and between vendors and SARS. The *Vat Modernisation Project* is based on the European VAT real-time reporting system that is currently being implemented. An *e-invoice* is a structured data file and machine-readable, and as it is machine-readable, it allows for automatic and swift processing of information.

De Wet, a tax executive at ENSafrica, as reported in PKF (2025: Online), believed that the proposed amendments by National Treasury provide insight into the direction they are going with the modernisation project. “The intention is to build a system that replaces the manual paper-based system that is inefficient from a compliance perspective due to the high risk of errors.” In an article, Lobban (atthatpoint, 2025: Online) reported that SARS Commissioner, Edward Kieswetter, at a Public Economics Forum, revealed that using AI had detected over R10 billion in invalid refunds.

Giles, in PKF (2025: Online), a tax executive at ENSafrica, referring to the *VAT Modernisation Project*, stated: “I know it is going to be difficult. Nothing that is challenging will be achieved quickly. It will take time, but if ever there was a solution to refund fraud this is it.” Concerns raised by PKF (Moneyweb, 2025b: Online) on the *Vat Modernisation Project* included:

- The premature adoption of a new system without addressing practical challenges;
- Failure to ensure proper stakeholder engagement to implement a practical system that is also procedurally fair on all vendors;
- Failure to account for the impact on small to medium businesses; and
- Incentivising the expansion of the cash economy and consequent worsening of the current tax gap.

Visser, in PKF (2025: Online) wrote that:

South Africa is doing some catching up and plans to introduce an electronic Vat reporting and invoicing system. Countries in Asia Pacific and Europe are already at an advanced stage of implementation. Mexico and Brazil, which are also first implementers, realised that their tax gap – theoretical versus collected Vat revenues – closed significantly because of the new measures.

According to Smuts, a tax partner at Deloitte (PKF, 2025: Online), “Electronic invoicing was first mentioned in the 2023 budget, and a discussion paper was published in September last year [which] means taxpayers will provide ‘real-time data’ to the tax authority”. Mthembu, an associate tax director at SNG Grant Thornton (PKF, 2025: Online), explained that “certain African countries have already started implementing e-invoicing. The Middle East, where Vat was only introduced in 2018, has also started implementing the new system”.

Many countries, including some European countries and some countries in Latin America and the Caribbean, have already implemented *e-invoice* reporting due to its potential to strengthen tax compliance and reduce costs (Barreix & Zambrano, 2023). Bojanc, Pucihar and Lenart (2024) explained that the European Union introduced an *e-invoicing* directive in 2014 to enhance business competitiveness and achieve cost savings, largely driven by the private sector. This directive mandated that member states adopt *e-invoicing* according to European standards for all public contracting authorities and entities by April 2019. In Italy, e-invoicing has been mandatory for business-to-government (B2G) transactions since June 2014, and for business-to-business (B2B) and business-to-consumer (B2C) transactions since January 2019 (Rocha, 2022). Italy's system, called "sistema di interscambio" (exchange system), requires businesses to submit standardized (XML) and digitally signed invoices for tax authority approval within five days before issuance and transmission to recipients. In recent years the implementation of Electronic Fiscal Devices (EFDs) has increased in Sub-Saharan Africa. Kenya implemented EFDs in 2005, followed by Tanzania in 2010, and Rwanda in 2014 (Fjeldstad *et al.*, 2020).

E-invoicing could, therefore, provide an ideal measure in the prevention of VAT non-compliance, particularly if applied in the form introduced in Italy.

PKF, in Moneyweb (2025b: Online), proposed an even more radical amendment to the South African VAT system that could eliminate VAT refund fraud and reduce the VAT rate significantly without compromising revenue collections. The proposal was to have a system that resembles a sales tax by disallowing VAT input claims and relying solely on the payment of output tax, but at a rate as low as 6%. PKF's proposal, it was claimed, could eliminate VAT refund fraud. PKF tax partner Gering (Moneyweb, 2025b: Online) said "This would eliminate the audit and verification work on Vat inputs and the audit and verification work on Vat refunds currently being undertaken by Sars." According to Gering, it would also eliminate the incentive for "fictitious Vat registrations" of companies that were merely created to obtain significant fraudulent VAT refunds and then quickly shut down before the mischief could be traced to the person behind that company.

4.5 CONCLUSION

This chapter contrasted South Africa's tax education initiatives with Indonesia's large, multi-level, and well-coordinated programmes. The study found that Indonesia prioritises educating taxpayers about taxes at an early age by including tax education in its school curriculum. The country implemented the *Tax Awareness Inclusion Programme* that targets school learners and university students to ensure they are informed of tax matters and their role on exit from the school system and becoming taxpayers. This initiative aimed to enhance taxpayers' knowledge about taxes and their value in the society and thus has impacted tax compliance in Indonesia. South Africa also implemented various education programmes to educate prospective taxpayers about their civic duty to pay taxes. The initiatives include the *Taxpayer and Trader Education for Learners* programme that targeted school learners, university and TVET college students as well as the administrative staff of the institutions to make them aware of their rights and obligations in the tax system. Additionally, digital platforms such as *YouTube* are used to share tax related information that taxpayers need in carrying out their obligations. It was revealed that South Africa's programme did not achieve consistent tax compliance results and failed to reach rural and disadvantaged taxpayers.

Indonesia's rehabilitative, risk-based enforcement approach to encourage long-term compliance and collaboration from the taxpayers, was discussed. Indonesia targeted high risk taxpayers such as SMEs, big retail companies and mining companies for audit. The country's enforcement approach is more about rehabilitation than punishment of the taxpayers that do not comply. South Africa, on the other hand, uses harsh penalties and increased audits, which produced uneven compliance and taxpayer mistrust. However, these punitive measures have led to revenue collection. SARS works with law enforcement agencies to deal with non-compliant taxpayers identified through the audit verification process. Through the Tax Administration Act, SARS applies various penalties such as the administrative non-compliance penalty and the percentage-based penalty for failure to pay taxes on time and for understatement, which ranges from 25% to 200%, depending on the severity of the taxpayer's non-compliance behaviour. It was found that SARS' approach to addressing non-compliance is harsh, while that of Indonesia is remedial and corrective.

Both countries embrace technology and the digital era. The countries enhanced administrative efficiency with digital filing and mobile platforms, which increased efficiency in the submission of tax returns. Indonesia uses the *DJP online* system and *eFiling* for submission of tax returns. Both platforms have increased efficiency by reducing filing time by about 25 minutes and have received acceptance by taxpayers. South Africa uses *eFiling* and *MobiApp* platforms, which have been widely accepted by taxpayers. These platforms enable rapid filing of tax returns by taxpayers and reduced walk-ins at branches by 60%. Walk-ins at rural branches increased, however, due to the limited infrastructural access. Both countries embrace these technologies but problems of equitable access to the platforms and digital literacy have impeded equitable access in both countries, thus affecting taxpayer compliance.

The introduction of the South African Tax Administration Act strengthened enforcement and enhanced compliance, but SARS' resources are constrained. The Act aims to eliminate duplications in administrative procedures in various Tax Acts by streamlining the procedures. The purpose of the Tax Administrative Act is also to guide taxpayers in terms of their rights and obligations in the tax system, and to raise taxpayers' awareness of what actions SARS can take in case of non-compliance, such as levying of various non-compliance penalties and prosecution.

The *Sunset Policy* and *Voluntary Disclosure Programmes* are tax reforms that Indonesia implemented to encourage voluntary compliance. In terms of the *Sunset Policy*, no interest, penalty or fines was imposed on taxpayers that voluntarily disclose their tax arrears. This reform broadened the country's tax base resulting in more revenue collection. The *Voluntary Disclosure Programme* had the same objective as the *Sunset Policy* but targeted offshore assets and income of the taxpayers. In two phases of implementation of the programme in 2016 and 2022, Indonesia recovered tax revenue and an increase in taxpayer participation resulting in more revenue collection. It was noted, however, that revenue trends varied; in 2016 fewer taxpayers participated but high value assets were declared, while in 2022, the programme had more participants declaring only part of their wealth with less value, possibly hoping for more programmes in future. South Africa also introduced the *Voluntary Disclosure Programme* in 2016 as a special reform programme in line with SARS' objective of promoting voluntary compliance. Following the success of the 2016 programme, in 2022 the programme was made a permanent reform through amendment to the Tax Administration Act. In terms of the programme, taxpayers that voluntarily disclose their non-compliance to SARS before or after

selection for audit verification will be penalised at a lower rate than they would have been if they were evading tax. The South African *Voluntary Disclosure Programme* enjoyed considerable success, according to the report by SARS. Despite the *Voluntary Disclosure Programmes* increasing the tax base and revenue collection, it was cautioned that the programme may render the current enforcement strategies ineffective as taxpayers may default on their obligations with the hope to utilise the programme in the future. Tax authorities must ensure there is a balance between enforcement strategies and the use of *Voluntary Disclosure Programmes*.

The significance of clear communication, high-quality taxpayer services, and fair and accessible dispute resolution processes was emphasised for a cooperative tax culture. To ensure taxpayer reach, particularly in rural areas, Indonesia uses community radios and village gatherings to access and share tax related information with the taxpayers. South Africa uses various channels such as SMS, e-mail, the internet and mobile tax services to update taxpayers about relevant tax laws, deadlines and their rights. Many taxpayers in rural areas were unable to access communications due to a lack of digital literacy and inadequate technological infrastructure.

According to the PricewaterhouseCoopers *Taxing Times Survey 2025* (Moneyweb, 2025a), when asked whether it became easier to comply with tax obligations, 65% of the participants indicated that it did, an 11% improvement from the previous year. This is a positive outcome, given that one of SARS' strategic objectives is to simplify compliance. However, this suggests that SARS systems and processes are difficult for taxpayers to understand and navigate. The report on the survey (Moneyweb, 2025a) suggests that SARS should establish direct communication channels with technical specialists to assist taxpayers to interpret and apply tax legislation effectively.

Both countries have had success in ensuring taxpayers access their services in a timely manner. For instance, Indonesia's *DJP online* has a live chat function that enables taxpayers to engage with tax officials. This service has improved access and efficiency in resolving queries. South Africa also improved the *eFiling* platform in terms of ease of use. Both online services have improved compliance. However, digital literacy and infrastructural limitations remain a concern. South Africa uses mobile units and community seminars to reach out to taxpayers to ensure they receive services equally. It was noted that, as much as enhancement to the platforms

has increased compliance and efficiency, tax authorities need to find a balance between digitalisation and taxpayers who do not have access to the tools. This way, taxpayers will feel valued and trust the system's fairness.

Indonesia and South Africa have demonstrated the desire to promote taxpayer trust in the system by establishing avenues for tax disputes and resolution procedures. Both countries have dispute resolution procedures that are cost effective for taxpayers and avoid the courts by resolving tax disputes internally. South Africa, through the Tax Administration Act, has introduced a process that taxpayers should follow in case of dissatisfaction with SARS, and the process begins internally with the tax board and tax court. These dispute resolution mechanisms have benefited both countries by improving the taxpayers' trust and faith in the system's fairness, making the relationship between the taxpayers and the tax authority more effective. It was noted, however, that taxpayers with limited knowledge of the administrative procedures and the marginalised may not benefit from this trust-building process, thus requiring tax authorities to ensure accessibility for all.

Lastly, the chapter discussed measures to combat VAT non-compliance and fraud in South Africa. In 2023 provision was made for estimated assessments, when vendors fail to respond to multiple requests by SARS for material or submit inadequate documentation. The *VAT Modernisation Project* of the South African government is being introduced to apply *e-invoicing* as a measure to address VAT non-compliance due to fraud. This European-based VAT reporting system, when implemented, will integrate SARS and vendor, supplier and consumer business interactions in real time so that when the vendor supplier issues a tax invoice, the tax authority can immediately record the output tax receivable and input tax claimable by the vendor. Thus, it eliminates the opportunity for vendors to manipulate invoices to claim VAT refunds. Another controversial measure proposed by PKF (2025: Online) is the elimination of the VAT input tax claim and only require the payment of output VAT by vendors at a reduced rate of 6%. These proposals may promote efficiency and reduce costs for SARS as less audit or verification work will be needed on VAT refunds and supplier registration. However, the adoption of the systems will require amendment to the already complex VAT Act.

Chapter Five provides a summary of the findings of the study, makes recommendations, identifies future research opportunities and concludes the study.

CHAPTER 5: CONCLUSION

5.1 INTRODUCTION

This chapter concludes the study, presenting the findings on self-assessment systems in the context of South Africa and Indonesia. Indonesia uses a self-assessment system for the administration of all its taxes; South Africa only self-assesses VAT, Donations Tax, withholding taxes and excise taxes, and other taxes are subject to an “official assessment” system. Both countries have had tax compliance challenges and have experienced insufficient revenue collection. This emphasises the need to examine the effectiveness of a self-assessment tax policy.

Achieving the ideals of the government-taxpayer social contract depends on the collection of taxes, making the study goals relevant and vital.

This chapter is divided into eight sections. The next section provides an overview of the discussions in the preceding chapters. The third section provides a summary of the findings of the study. The fourth section makes recommendations regarding measures to adopt to improve tax compliance in a self-assessment system in South Africa. The fifth section discusses the contribution of the study, followed by the sixth section that acknowledges the study limitations and weaknesses. The seventh section identifies future research opportunities. The final section makes a few concluding comments.

5.2 OVERVIEW OF THE THESIS

A brief overview of the chapters of the thesis is provided below.

Chapter One

Chapter One provided the background to the study. The important role that taxes play in the economy of both South Africa and Indonesia was explained, as taxes are the revenue stream used to fulfil the social contract by providing services to the citizens, improving the infrastructure, dealing with climate change and reducing poverty. That taxes also contribute to GDP, reflected in the Tax-to-GDP ratio, was highlighted. It was indicated that Indonesia is the

major economy in the Asian-Pacific region but has had challenges of low tax compliance as indicated by its Tax-to-GDP ratio that has always been below 15%, indicating that its full self-assessment system may not have operated effectively since its implementation in 1983. As explained, South Africa has a Tax-to-GDP ratio above 15% and only self-assesses certain taxes, but a substantial tax gap and tax compliance concerns in South Africa remain. The fact that both countries are middle income developing countries, apply self-assessment tax systems, depend on tax revenue and experience compliance problems substantiated the main research question: *How do the strategies implemented in Indonesia to address low tax compliance following the introduction of a self-assessment system compare with the South African approach?*

The goal of this study was therefore to analyse factors associated with tax compliance and examine strategies implemented in Indonesia and South Africa to address low tax compliance, after the introduction of self-assessment systems. To address the research goal, four sub-goals guided the study. The first sub-goal was to discuss factors that affect tax compliance behaviour of taxpayers in the context of a self-assessment environment. The second sub-goal was to describe the self-assessment system applying in Indonesia and South Africa, including its role in promoting tax compliance and the associated problems. The third sub-goal was to contrast measures adopted by Indonesia and South Africa to respond to low tax compliance after implementing a self-assessment system. Finally, the fourth sub-goal was to make recommendations for strategies to improve tax compliance.

The research methodology and design adopted for the research were described. The study was situated within the interpretivism paradigm with the aim to describe and understand the countries' response to low compliance in a self-assessment tax system. The methodology used was qualitative, applying a thematic analysis of secondary data, with the results expressed in natural language. The study used only secondary data sources, which included legislation, journal articles, Ministry reports, and media reports.

Chapter Two

Chapter Two reviewed the literature dealing with factors that have an influence on tax compliance, including economic, institutional, social, individual and other characteristics, questions of tax morale, perceptions of fairness, enforcement credibility, and access to

technology. Economic factors included the cost/benefit decision by taxpayers who may decide that the saving achieved by not complying outweighs the penalties if they are detected. Another economic factor was the rate of tax, and there were conflicting findings regarding this factor. Tax audits, as an economic factor, have a positive relationship with compliance, while perceptions of government spending, where wasteful or improper use of taxpayer funds occurs, were identified as having a negative relationship.

Institutional factors were shown to include the negative relationship between the lack of trust in the government and compliance, and the negative relationship of complex legislation, complex tax returns and complex tax administration with compliance. The positive relationship of the probability of detection with tax compliance was highlighted. Social factors with a positive relationship with compliance were shown to include taxpayer ethics and morale, the equity and fairness of tax, and favourable changes to government policies. That taxpayers are influenced by referent groups who are non-compliant was discussed. Individual factors were shown to include financial constraints, which may have a negative relationship with tax compliance, and awareness of penalties and fines, which have a positive relationship with compliance. Finally, it was revealed that the level of education may have either a positive or negative relationship with compliance.

While certain conflicting findings were pointed out, the overwhelming positive relationship between the factors and tax compliance was established. The literature dealt mainly with compliance factors in relation to income tax, but their relevance in a self-assessment tax system was confirmed.

Chapter Three

Chapter Three defined a self-assessment system and how it operates and discussed tax compliance in the self-assessment systems in Indonesia and South Africa. A self-assessment system requires honesty and understanding by taxpayers, and correct return filing, as the system shifts the tax filing burden to taxpayers. The global acceptance of self-assessment systems was noted. The hybrid system employed in South Africa to self-assess only certain taxes was explained, and Indonesia's application of a self-assessment system for all its taxes. The role of a self-assessment system and the extent to which the system complies with the principles of a "good" tax system were discussed.

Despite research findings claiming that a self-assessment system has a positive influence on tax compliance, it was concluded that the claim may not be reflected in the Tax-to-GDP ratio. Indonesia's weak Tax-to-GDP ratio indicates considerable material financial non-compliance despite high formal compliance, while South Africa's partial self-assessment system results in a higher Tax-to-GDP ratio but is also plagued with a substantial tax gap and compliance problems.

The chapter went on to discuss problems encountered in a self-assessment system, including a lack of tax knowledge and the need for tax education. The complexity of a self-assessment system was identified as a significant problem. The Global MNC Tax Complexity Project was referred to that reflected a high level of complexity in both Indonesia and South Africa, more so in the case of Indonesia. Complexity of legislation was illustrated in terms of the South African VAT Act.

Finally, the problem of non-compliance and fraud in South Africa in connection with VAT was discussed. VAT fraud perpetuated by use of shell entities as vendors, submission of fictitious invoices and impermissible schemes by vendors were described and this indicated how vulnerable the VAT self-assessment system is in South Africa. The role of voluntary tax compliance, institutional capacity, and administrative simplicity in the success of a self-assessment system was confirmed.

Chapter Four

Measures adopted by Indonesia and South Africa to address low tax compliance after the introduction of the self-assessment system were discussed and contrasted in Chapter Four. The first measure discussed was taxpayer education and awareness programmes. The rigorous and broad-scoped education programmes introduced by both Indonesia and South Africa were discussed. The South African programmes were, however, limited by capacity constraints and were more fragmented than those of Indonesia. The next measure discussed was enforcement by way of penalties and audits, measures adopted by both countries. The penalties imposed in South Africa were described and the tax recoveries from audits were documented. It was found that South Africa uses threats and sanctions to force compliance, while Indonesia uses remedial

and corrective policing to promote compliance. Both countries improved their tax compliance measures, but Indonesia encouraged long-term taxpayer collaboration.

Technological and administration innovations by both countries were described. These comprised digital technologies and administrative changes, which were aimed at modernising tax systems and improving accessibility for taxpayers. The digital technologies introduced by both countries were described: the *M-Pajak* mobile platform, the *DJP Online* system, and the improved *eFiling* system in Indonesia, and in South Africa *eFiling* and *MobiApp* platforms. Improvements realised by these technologies in both countries were described.

In South Africa, the enactment of the Tax Administration Act was described as a major change to the country's tax system. It created a comprehensive set of rules for the administration of the tax system, providing for enforcement and conflict resolution. The Tax Administration Act modernised South Africa's tax administration by laying the groundwork for enforcement, audits, and dispute resolution. That insufficient administrative capability, unequal audit coverage, and variations in taxpayer behaviour linked to income levels hampered its success, was described. The Tax Administration Act simplified requirements and established enforcement processes, but institutional capacity, fair enforcement, and taxpayer education were needed.

Voluntary Disclosure Programmes were the next measure discussed. In Indonesia, the *Sunset Policy* enhanced revenue and broadened the tax base by encouraging cooperation by taxpayers. The *Voluntary Disclosure Programme* in Indonesia aimed to encourage taxpayers to declare the income and the assets (wealth) that they owned and that were held in low or tax-free jurisdictions. In return, these taxpayers were not subject to fines and penalties, or criminal sanctions for their tax evasive behaviour. South Africa introduced the *Special Voluntary Disclosure Programme* for the first time as a special relief measure for taxpayers who willingly regularised their tax affairs by disclosing their tax arrears, offshore assets, and income. The programme was to operate for six months beginning 1 October 2016 but was later extended indefinitely. The programmes in both countries achieved success, but it was concluded that, while both countries demonstrated that voluntary disclosure can be effective, it requires tough enforcement, taxpayer education, and technology to sustain compliance. The danger of repeated or prolonged programmes was highlighted.

The next section discussed measures undertaken by both countries to promote engagement and trust between the tax authority and taxpayers, and it was submitted that for compliance to be achieved, in addition to the deterrence measures, incentives and the legislative framework in place, a tax compliance culture and trust must be established among the taxpayers. The measures discussed were taxpayer communication and transparency initiatives, improving taxpayer service quality and support, and dispute resolution and grievance mechanisms. It was revealed that Indonesia communicates using social media, digital innovations, village gatherings, community radio and local government. SARS uses email and the Internet, annual taxpayer satisfaction surveys, the disclosure of audit results and tax collection data. Due to infrastructure, literacy, and technology challenges, remote and poor areas in both nations had difficulty in getting tax information.

Under the heading improving taxpayer service quality and support, it was revealed that by setting up dedicated helpdesks, providing customer service training to employees, and employing the Directorate General of Taxes *DJP Online* live chat function, the calibre of services provided in Indonesia was improved. These measures reduced taxpayer operating limitations and allowed for quick query and error resolution. Additionally, mobile service teams were sent to remote locations to help rural taxpayers with infrastructure and logistical challenges. In South Africa, SARS increased taxpayer service by expanding contact centre capabilities, enhancing the *eFiling* system usability, and training frontline personnel to improve professionalism, responsiveness, and customer interaction quality. Improved user interfaces and customer service increased first-time filer trust while decreasing unintentional non-compliance caused by procedural mistakes.

Tax dispute resolution and grievance mechanisms were discussed, and in Indonesia and South Africa, effective tax complaint processing earned taxpayer trust and compliance. Indonesia streamlined conflict resolution to cut court expenses and time; mediation and taxpayer representation at hearings were pointed out as examples. The Directorate General of Taxes offered *Alternative Dispute Resolution* tools to encourage official communication between citizens and tax officials before court hearings. In South Africa, the Tax Administration Act introduced complaint and appeal processes, and developed a comprehensive framework to protect taxpayer rights and streamline administration. Independent tax tribunals were created and courts review tax determinations. SARS formed internal conflict settlement divisions to speed up cases and give taxpayers clear instructions. Despite advances, both countries' conflict

settlement procedures shared similar difficulties. Online objection filing and status checking in Indonesia's online system and SARS's *eFiling* platform decreased administrative expenses and enhanced taxpayer involvement.

Finally, the chapter briefly discussed more recent measures to improve compliance and address VAT fraud in South Africa. These included the introduction by SARS of estimated assessments and the *Vat Modernisation Project*, which is based on the European VAT real-time reporting system that is currently being implemented and involves *e-invoices* that enable revenue authorities have access to the documents that support the reporting of the self-assessed taxes.

5.3 SUMMARY OF FINDINGS

This section provides a summary of findings of the study.

5.3.1 Factors affecting compliance

In Chapter Two factors affecting tax compliance were discussed. Tax compliance is affected by economic, institutional, behavioural, individual and other factors in both Indonesia and South Africa. The study revealed mixed relationships between various factors and compliance.

- Economic incentives in the form of the reduction of tax rates do not necessarily improve compliance and, instead, may tend to encourage tax evasion particularly among SMEs.
- A key strategy that appears to impact compliance positively was identified as regular tax audits. In the same way awareness of penalties and fines has a positive relationship with compliance. A high probability of detection is also positively related to compliance. In some instances, however, taxpayers with the means to pay the fines may choose not to comply.
- A favourable perception of the use of tax revenue by government has a positive relationship with tax compliance.

- Issues of institutional nature revealed that the tax authority has a key role to play in compliance. Where tax policies comply with the principles of a “good” tax system this promotes taxpayer compliance. Perceptions of equity of the tax system are positively related to compliance. It was observed that taxpayers need a system that is easy to understand and apply in a self-assessment context, thus placing an obligation on governments to ensure a transparent, easy-to-follow tax filing and administration processes.
- Government’s role also extends to mediating trust and respect between it and the taxpayers.
- The simplicity of legislation and tax returns are positively related to compliance. Ease of administration by taxpayers has a positive relationship as well, and the use of digital technology platforms increases tax compliance.
- Studies focusing on taxpayers’ morale and ethics, and perceptions of an equitable and fair tax system have revealed a positive relationship with tax compliance.
- The study revealed that the social environment of taxpayers and referent groups have an influence on tax compliance. This relationship may be positive or negative, depending on the behaviour of the referent group.
- It was found that income level (profitability in the case of a business) has an impact on compliance. Businesses in financial stress may not comply with the payment of tax and prioritise financial needs over their fiscal responsibility. Profitable businesses may choose to be non-compliant as they have the means to pay the penalties.
- The education level of taxpayers, their knowledge of taxes and their awareness of their civic duty has a positive impact on tax compliance. However, those with a higher level of tax knowledge may use it to evade tax.

Awareness of the factors that have a positive relationship with tax compliance should inform the design of tax policies.

5.3.2 Problems in a self-assessment system

Chapter Three addressed the second sub-goal of the study, the self-assessment system and its problems since implementation. Self-assessment systems in Indonesia and South Africa were designed to promote voluntary compliance and administrative efficiency. All Indonesian taxes, including income and value-added tax, are self-assessed, with associated compliance problems. VAT, Donations Tax, withholding taxes, and excise duties are self-assessed in South Africa; income taxes are assessed using the “official” assessment system. This combination of tax systems in South Africa appears to balance administrative efficiency and taxpayer capabilities, with the consequent favourable effect on the Tax-to-GDP ratio. Thus, the partial adoption of a self-assessment system decreases the overall risk of non-compliance.

Taxpayer autonomy and accountability in a self-assessment system substantially influence compliance. Indonesian taxpayers prefer the system's flexibility but develop compliance fatigue from return filing and the technical complexity of computation procedures. With their self-service digital tools, SARS has empowered taxpayers but has left those behind who are without digital literacy skills and technology. Self-assessment enhances engagement but requires taxpayer education, accessible technology, and administrative assistance.

The success of the self-assessment requires a digital revolution. Technology improved efficiency and transparency in both countries. Indonesia's *DJP Online* and *M-Pajak* platforms accelerated return registration, submission, and payment. SARS reported that South Africa's *eFiling* and *MobiApp* platforms increased accessibility and administrative efficiency. Digitalisation improves procedural efficiency, but it requires technical access and knowledge across all demographic groups.

The county-to-country comparison of the complexity of tax systems revealed that Indonesia's tax system is complex compared to the South African system, and this is one of the possible reasons why Indonesia is struggling with tax compliance. When the system is complex to understand and apply, taxpayers with less knowledge and marginalised groups are unable to execute their civic duties optimally.

The chapter also discussed instances of VAT fraud revealed in media reports and case law illustrating that the VAT system in South Africa is vulnerable to manipulation. Illegitimate vendor registrations, the use of fictitious supplier invoices, and the use of fake customs documentation were among the issues identified in VAT fraud that resulted in fraudulent VAT refunds and a significant loss to the *fiscus*. It was also noted that certain SARS' officials assist fraudulent vendors with documentation and the claim process.

5.3.3 Measures adopted to address low tax compliance

Chapter Four discussed the third sub-goal of the study and analysed measures that both countries have put in place to address low compliance following the implementation of a self-assessment system. The early efforts focused on education and awareness. Indonesia's 2014 *Tax Awareness Inclusion Programme* taught taxation in schools and to communities to promote early tax literacy. This long-term program aimed to raise tax awareness nationwide by 2060. SARS's *Taxpayer and Trader Education Programme* in South Africa educates school children, university students, and the informal sector on tax requirements. Notwithstanding these attempts, it was found that the South African approach is fragmented, with poor rural penetration and inadequate resources. This suggests that Indonesia's centralised and curriculum-based model is more widespread and effective than South Africa's.

Enforcement and audit were another governmental response. Indonesia's Directorate General of Taxes uses risk-based auditing with artificial intelligence to find anomalies between taxpayer filings and third-party data. Corrective intervention and taxpayer rehabilitation, rather than punishment, promote collaboration from taxpayers in Indonesia. SARS also applies risk-based auditing and artificial intelligence, but audit their capacity is limited. SARS' enforcement strategy involves administrative fines and understatement penalties provided for in the Tax Administration Act. These approaches have enhanced formal compliance, but their punitive nature may hinder voluntary compliance. Evidence suggests that a balanced enforcement system, training, and taxpayer support enhance long-term compliance.

Technological and administrative developments increased tax compliance. *DJP Online*, *M-Pajak*, and *e-filing* have improved tax administration in Indonesia. SARS' *eFiling* platform's biometric authentication and automated return computation simplified compliance and promoted transparency. Optimal success in both countries varies due to digital accessibility.

Disadvantaged South Africans' limited literacy and connectivity prevent them from using technology optimally. Thus, technology efficiency must be linked to equitable infrastructure development to minimise compliance inequities.

Another significant measure was a legal and policy reform. In 2012, the South African Tax Administration Act standardised compliance, structured fines, and simplified dispute resolution. The clarity and consistency of the Act have increased administrative transparency. Indonesia used fiscal policy advances like the *Sunset Policy* (2007) and the *Voluntary Disclosure Programmes* (in 2016 and again in 2022), which allowed taxpayers to regularise undeclared income and assets without penalties. South Africa also adopted a *Voluntary Disclosure Programme* in 2016 as a measure to enhance compliance, and this was later made permanent. These methods broadened the tax base of both countries and improved compliance, but in the longer term may lead to the need for future amnesties. Amnesties and transparency programmes increase short-term tax collection but require significant post-programme monitoring and enforcement to assure compliance.

Both countries prioritised clear communication and accessible services to increase taxpayer trust. Community radio, local government partnerships, and social media have increased the Indonesian taxpayers' trust in the tax office and understanding of complicated procedures. SARS promotes transparency through reporting on audit outcomes and taxpayer satisfaction surveys. Both jurisdictions are aware that communication alone cannot remedy enforcement and service delivery inequities. Trust requires consistent policy enforcement and taxpayer support.

Finally, both countries embrace and prioritise equity and conflict settlement. The Indonesian Directorate General of Taxes reached rural taxpayers using *live-chat* and mobile helpdesks, while SARS enhanced its contact centres and mobile units to minimise service bottlenecks. Despite these advances, urban taxpayers benefit the most. Thus, although service development projects succeed, compliance must be strengthened by investing in human capacity, digital infrastructure, and local taxpayer assistance.

Indonesia prioritises education, inclusivity, and voluntary cooperation, while South Africa prioritises deterrence, digitalisation, and institutional control. Indonesia has high taxpayer knowledge and long-term compliance, while South Africa controls and integrates technology

to boost revenue. A hybrid paradigm combining Indonesia's participatory attitude and South Africa's institutional rigour may sustainably increase tax compliance under a self-assessment system.

5.4 RECOMMENDATIONS

This section makes recommendations to improve the administration of taxes and tax compliance in South Africa.

5.4.1 Strengthening taxpayer education and awareness

South Africa should emphasise taxpayer education to increase voluntary compliance. When integrated into official and informal learning systems, structured education courses boost tax literacy and compliance. Indonesia's *Tax Awareness Inclusion Programme*, which integrates tax education throughout schools and colleges, has raised tax awareness. South African measures have been moderately successful but scattered and underfunded. South Africa should teach taxpayers fiscal literacy through both national curricula and community-based programs. Creating tax awareness across generations would make compliance a social norm rather than a reactive obligation.

To accommodate socioeconomic differences and digital literacy, taxpayer education should vary. Disadvantaged South Africans lack tax information, resulting in non-compliance and mistrust of tax officials. Urban-rural tax disparities impair Indonesian centralised awareness campaigns. Multilingual teaching materials, rural outreach programs, and computer literacy courses can help tax authorities to address knowledge gaps. Schools, local governments, and civil society organisations should work together to increase broad-based education programmes. Connecting education with community needs and moving compliance from enforced obedience to informed participation could assist tax authorities to achieve and maintain self-assessment compliance.

5.4.2 Enhancing digital infrastructure and technological inclusion

Self-assessment accessibility and efficiency require adequate digital infrastructure. It was found that Indonesia's *DJP Online* and *M-Pajak* digitalisation programmes accelerated the

administration of tax but failed to achieve universal participation due to unequal internet access and technological literacy. SARS *eFiling* and *MobiApp* enhanced efficiency but excluded rural taxpayers with weak connectivity. South Africa could use the current digital channels and offline aid for digitally excluded groups in community kiosks, mobile service centres, and call-based taxpayer assistance. This could foster digital inclusion.

Technology could also improve transparency and user experience. Useable and dependable *e-tax* systems were found to increase taxpayer satisfaction and compliance. Artificial Intelligence for targeted education, real-time error detection, and predictive analytics for non-compliance could be used. Together with technology expansion, digital literacy classes are recommended to eliminate technological marginalisation. By stressing inclusivity, accessibility, and data security, digitisation could be used to enhance taxpayer confidence and voluntary compliance.

5.4.3 Balancing enforcement with trust-based compliance

To address non-compliance, tax enforcement should balance deterrence and taxpayer trust. Harsh punishment may harm taxpayer trust and limit voluntary compliance. Trust-based compliance can change behaviour, as shown by Indonesia's corrective and educational enforcement, which mentors first-time offenders. Penalties and audits have increased short-term compliance in South Africa but have caused administrative intimidation. A balanced policy should use punishments, preventative education, and dispute resolution to encourage compliance, without alienating taxpayers.

Transparent AI-powered risk-based audit systems promote equity and efficiency. Indonesia's risk-based audit enhanced tax recovery and reduced administrative costs, while SARS's data-driven enforcement detected non-compliance early. For public trust, these mechanisms must be impartial and transparent. Periodically publishing audit criteria and compliance numbers improves fairness. Cooperative compliance, where tax officials advise rather than enforce, enhance taxpayer trust, reporting accuracy, and reduce administrative conflict.

5.4.4 Institutionalising policy consistency and voluntary disclosure programmes

Consistent, transparent tax policy frameworks are required for predictability and compliance. Frequent law changes and irregular amnesties encourage strategic non-compliance and

undermine the tax system. Indonesia's repeated *Voluntary Disclosure Programmes* increased tax revenue but created expectations of future amnesties. Enforcement and the *Voluntary Disclosure Programme* in South Africa boosted compliance. Policy predictability reduces avoidance by giving taxpayers confidence in the system. Tax authorities should avoid amnesty cycles and monitor and evaluate post-amnesty compliance behaviour.

Revenue collection and tax administration legitimacy and credibility will increase with predictable and clear compliance procedures, encouraging honesty and collaboration in a self-assessment system.

5.4.5 Introduction of the *e-invoicing* system for Value-Added Tax administration

The adoption and implementation of an *e-invoicing* system for VAT should be prioritised. This will not only strengthen the VAT collection system and deter VAT fraud but is a response to technological adoption in the digital era. *E-invoicing* could also assist with the administration of other taxes such as the Income Tax to substantiate deductions of business expenses in the Income Tax Return. Like Italy, *e-invoicing* should be introduced in a phased-in approach. Although the introduction of *e-invoicing* will require a significant technological investment, this is necessary to curb the VAT refund fraud, improve the efficiency of audits and verifications and increase the VAT collection for the *fiscus*.

5.5 CONTRIBUTION OF THE STUDY

This study examined self-assessment systems in Indonesia and South Africa, two middle-income countries with differing institutional and socio-economic contexts, and added behavioural, technical, and policy aspects to explain why comparable fiscal models yield different findings. This constitutes a contribution to existing research. The study also combines institutional capacity and behavioural reactions to extend theoretical models of compliance into digital governance, highlighting the mediating role of technology in enhancing tax compliance. Finally, the comparative perspective of the study adds to tax policy research.

5.6 LIMITATIONS OF THE STUDY

This study relied on secondary data, preventing empirical confirmation. Publications of the Indonesian Ministry of Finance and the South African National Treasury provided most of the quantitative indicators, which vary in style, frequency, and data granularity. These anomalies made disaggregated compliance numbers and informal sector involvement hard to compare. Therefore, the study used interpretation and contextual analysis rather than numerical equivalence. The study, however, employed government-verified data and focused on policy and institutional frameworks to promote the validity of the findings.

Without the input of taxpayers, revenue auditors, and tax administrators prevented confirmation of the findings. Without qualitative data from taxpayers, the study could not accurately assess subjective factors like trust, justice, and emotional responses to enforcement methods. These traits greatly influence voluntary self-assessment compliance. This limits the depth of the discussion of behavioural factors.

Country contextual differences are another restriction. These contextual changes made comparison difficult. Despite these differences, the comparative approach illustrates how structural, cultural, and administrative elements affect fiscal models.

Lastly, data accessibility and institutional openness are issues. Audit success ratings, taxpayer satisfaction surveys, and compliance cost evaluations were unavailable or classified by the revenue authorities in both jurisdictions. The behavioural impact of enforcement techniques and educational programmes could not be quantified.

5.7 FUTURE RESEARCH OPPORTUNITIES

Mixed-method research could be applied to understand taxpayer behaviour in a self-assessment system, particularly as tax systems evolve. Focus groups and qualitative interviews may identify the socio-cultural factors like justice, trust, and administrative legitimacy that influence compliance decisions. Trust motivates voluntary obedience more than punishment. This underscores the need for context-specific behavioural studies that go beyond institutional reforms. How rural and informal sector taxpayers interpret compliance requirements in uneven service availability and information contexts, could be explored.

Another potential topic is the long-term success of the digital transformation program. Recent digital changes like Indonesia's *M-Pajak* and South Africa's *eFiling* platforms have increased procedural efficiency, but their long-term behavioural influence is unknown. A study dealing with digital inclusion, confidence in the system, and usage patterns among different taxpayer segments could reveal whether technological innovation creates a lasting compliance culture. Comparative research across different emerging economies could contextualise these digital consequences, improving the global understanding of the modernisation of self-assessment systems.

Future research could include tax education, voluntary disclosure, and generational fiscal responsibility. Organised tax education increases civic commitment in younger Indonesians, and the same was found in South Africa. Thus, future studies could examine how early tax education and recurring awareness campaigns affect lifelong compliance. Sustainable compliance would benefit from studies on the socio-political legitimacy of *Voluntary Disclosure Programmes*.

Future studies could combine behavioural economics, digital governance, and educational psychology to understand tax compliance in underdeveloped countries.

5.8 CONCLUSION

To address low tax compliance, the study contrasted Indonesia and South Africa's self-assessment systems. Both countries seek voluntary compliance, but contextual, institutional, and socio-economic variables affect their strategies and administrative results. Indonesia encourages trust in the tax system and civic participation through inclusion, taxpayer education, and voluntary disclosure. To maintain fiscal discipline and institutional credibility, South Africa prioritises enforcement, digital transformation, and regulatory uniformity. Despite their differences, both governments agree that enforcement alone cannot ensure compliance. Trust, deterrence, and service must be balanced. An effective self-assessment regime requires administrative competence, impartiality, accessibility, and citizen-state engagement. Adopting these norms, will enable tax jurisdictions to benefit significantly in terms of increased tax revenue collection.

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