

A conceptual framework of tax knowledge

Marina Bornman

*Department of Accountancy, University of Johannesburg,
Johannesburg, South Africa, and*

Pusheletso Ramutumbu

Department of Commercial Accounting, University of Johannesburg, South Africa

Tax
knowledge

823

Received 18 September 2018
Revised 17 January 2019
18 February 2019
Accepted 6 March 2019

Abstract

Purpose – This paper aims to develop a conceptual framework of tax knowledge that can be used to analyse and discuss tax knowledge as a factor influencing tax compliance.

Design/methodology/approach – Relevant literature was sourced using keywords pertaining to tax knowledge to identify the constructs of the framework. Thereafter, secondary interview data on small business owners' tax challenges were thematically analysed to test the proposed framework.

Findings – Three elements of tax knowledge were identified, namely, general, procedural and legal tax knowledge. General tax knowledge relates to a need to have a fiscal awareness; procedural tax knowledge refers to understanding tax compliance procedures; and legal tax knowledge pertains to a need to understand regulations.

Practical implications – The proposed framework may assist future research in providing a structured approach for assessing tax knowledge as a factor influencing tax compliance. The framework may also assist tax authorities in designing targeted tax education outreach programmes for taxpayers and improve their understanding of taxpayer behaviour to influence the compliance behaviour of its taxpayer population.

Originality/value – An acceptable and specific measurement of tax knowledge as a factor of tax-compliance behaviour has been proposed and tested as a tool for analysing and discussing taxpayers' knowledge variables.

Keywords Tax compliance, Fiscal awareness, Legal knowledge, Procedural knowledge, Tax authority, Tax knowledge, Tax regulations

Paper type Research paper

1. Introduction

Tax compliance behaviour is a matter of concern to tax authorities because evasion negatively influences the collection of taxes and the capacity of the state to accomplish the objectives of a thriving economy and society (Sapiei *et al.*, 2014). Studies on tax compliance behaviour from a social psychological perspective have gained momentum, particularly since 2001 (Kirchler, 2007). Some reviews of the literature on the tax compliance decision in recent years, with a view of summarizing its findings, include that of McKerchar (2001a), Kornhauser (2007), Kirchler (2007), Pickhardt and Prinz (2014) and Hofmann *et al.* (2017). From these reviews, it is evident that factors such as personal and social norms; tax knowledge; fairness perceptions; taxpayer demographics; taxpayers' attitudes and motivations to comply, play a role in the tax compliance decision of individuals.

Kamleitner *et al.* (2012) report that some studies found small business owner-managers more likely to be tax non-compliant than other groups of taxpayers. As the small business sector is important for the development of the economy and society,



poor compliance with their tax obligations poses a significant problem. The tax compliance decision of small business owners does not differ much from that of individuals as far as the attitudinal variables are concerned (Kirchler, 2007). Kamleitner *et al.* (2012, p. 331) argue that “tax decisions tend to be made by and are personally relevant to small business owners, who can be characterised as individual decision makers.” They propose three main and unique characteristics that may inform small business owners’ perception of and reaction to taxation, namely non-compliance opportunity, knowledge requirements, and decision frames. The focus of the present paper is on tax knowledge as a factor influencing tax compliance behaviour. The authors of the present article are of the opinion that the concept “tax knowledge” can have a standardised meaning in all future tax compliance research and can be analysed using the framework that will be proposed in the present paper. It is acknowledged that tax knowledge requirements may play a bigger role for the individual in business than for the individual taxpayer who may merely be a salaried employee with minimum interaction with tax authorities, however, the authors believe that the framework can be equally useful for both classes of taxpayers.

Empirical and literature studies have shown that non-compliance may be caused by (amongst other factors) taxpayers’ lack of knowledge and lack of ability to comply [Fjeldstad and Heggstad, 2012; Braithwaite *et al.*, 2010; Organisation for Economic Co-operation and Development (OECD), 2009]. A South African study by Ramutumbu (2016) confirms for a population of small business owners, that although they have a high tax morale (or intrinsic motivation to be tax compliant), their biggest challenge is a lack of knowledge in dealing with their own tax affairs. Similarly, Olsen (2015) and Onu and Oats (2015) suggest that most tax payers are willing to comply and are more concerned with *how* they can go about doing it.

Researchers have focussed a significant amount of attention on finding ways to improve tax compliance, and studies suggest that tax compliance can be improved by increased tax knowledge (Wong and Lo, 2015). Kamleitner *et al.* (2012) argue that it is important to improve small business owners’ level of tax knowledge to enable taxpayers to be in a position to understand and cope with the administrative and legal requirements of revenue bodies. In view of the assumption that compliance with applicable tax legislation is dependent on being able to understand the legislation (Wong and Lo, 2015), enhancing taxpayers’ tax knowledge may be one way of promoting tax compliance (Loo *et al.*, 2008, 2009). It is therefore considered a useful attempt to conceptualise a framework of “tax knowledge” as a factor influencing tax compliance and thereby adding to the understanding of tax compliance behaviour.

In reviewing relevant literature, it was found that the term “tax knowledge” is interpreted in different ways by tax scholars. The term is used in ways ranging from an umbrella term for different types and levels of tax knowledge, to a one-dimensional interpretation. It is therefore submitted that the gap in the literature is that the concept of tax knowledge is not well-defined in tax compliance research and is generally used in a broad sense. The objective of this paper is therefore to construct a conceptual framework for the concept of tax knowledge that can be used to analyse, measure and discuss taxpayer knowledge in the context of tax compliance. The paper will also aim to perform a preliminary assessment of the framework and find evidence to support the propositions of the framework by conducting an analysis of statements made on the tax knowledge requirements of a group of small business owners in South Africa (Ramutumbu, 2016).

The remainder of this paper has four sections. The following section introduces the concept of tax knowledge as presented in the existing literature and then explores the role of tax knowledge in the tax compliance decision and its validity as a factor in improving tax compliance. In the section thereafter, the methodology used in the present paper is discussed and then the findings from the literature and interpretation thereof is presented. The paper concludes with the proposed framework, which is then further supported with evidence gained from an analysis of taxpayers' statements regarding their tax knowledge requirements.

2. Literature review

The tax compliance literature does not present a single definition of "tax knowledge" but instead uses it in many different contexts. Palil (2005) supports the notion that tax knowledge is not a clear construct and Udin (2015) strongly advocates that there is a need for an acceptable and specific measurement of individual taxpayer's knowledge variables to provide meaningful and comparable research findings.

2.1 The use of the concept "tax knowledge" in the literature

A summary of the various ways in which the concept of tax knowledge has been used in the literature is presented in Table I.

From the definitions presented in Table I, it appears that "tax knowledge" is understood to include aspects of a general fiscal awareness; an understanding of the processes and responsibilities of being tax compliant; as well as a more specialized understanding of tax specific rules and legislation. It is therefore submitted that a framework of tax knowledge could include these three elements categorised as

Author/s and date	Description of tax knowledge
Groenland and Veldhoven (1983)	Tax knowledge refers to the degree of general fiscal knowledge and knowledge on opportunity to commit fiscal frauds
White <i>et al.</i> (1990)	Tax knowledge refers to the level of education to represent the level of taxpayers knowledge in taxation
Bardai (1992), Eriksen and Fallan (1996), Kasipillai (1997)	Tax knowledge refers to the understanding or awareness of the basic rules and regulations stipulated by the income tax law in respect of taxpayers' responsibilities in filing their tax return forms
Devos (2016)	Tax knowledge refers to the general degree of fiscal knowledge, knowledge involving evasion opportunities, general educational attainment or knowledge of tax law
Palil (2005)	Specific tax knowledge combines information about tax rules with financial knowledge to make it possible to calculate economic consequences for taxpayers
Hasseldine <i>et al.</i> (2009)	Tax knowledge is the level of awareness or sensitivity of the taxpayer to tax legislation. Tax knowledge refers to the processes by which taxpayers become aware of tax legislation and other tax related information
Kirchler (2007)	Subjective tax knowledge refers to ordinary people's understanding of taxation
Wong and Lo (2015)	Tax knowledge refers to one's perception of the ability to comply with tax laws, which includes technical tax knowledge and general tax knowledge about the tax system and tax compliance

Source: Authors' own summary

Table I.
Summary of the use of the concept "tax knowledge" in the tax compliance literature

follows: general tax knowledge; legal tax knowledge; and procedural tax knowledge. Evidence will be provided in this article from the literature to confirm that these elements of tax knowledge are discernible as essential constructs of tax knowledge required by taxpayers to meet their tax obligations. The next section explores the role of tax knowledge in the tax compliance decision and its validity as a factor in improving tax compliance.

2.2 The role of tax knowledge in the tax compliance decision

Tax literature shows that having knowledge of the tax system can change taxpayers' attitudes and tax morale (Eriksen and Fallan, 1996). Similarly, Fjeldstad and Heggstad (2012) found that specific tax knowledge influences taxpayers' attitudes and Niemirowski *et al.* (2002) state that there is a significant relationship between tax knowledge and a positive attitude towards tax, while a lack of knowledge can bring about a negative attitude towards tax. Tax knowledge can therefore change people's behaviour towards being compliant with tax laws. Given that taxpayers' attitudes are important for their tax behaviour, it is likely that it is possible to affect taxpayers' behaviour by efforts to increase their tax knowledge (Fjeldstad and Heggstad, 2012).

Coleman and Wilkins (1995) provide evidence that there were different views and attitudes amongst the Australian public regarding the tax system and compliance issues. One of the plausible reasons that would hinder the changing of attitudes is the unequal levels of knowledge or participation in the tax system. If knowledge about the tax system can replace misconceptions, a change in the compliance behaviour of the taxpayer can be expected despite individuals' tax morale and tax laws remaining the same (Fjeldstad and Heggstad, 2012).

Some researchers have established that compliance could also be affected by making taxpayers aware of their social obligation to pay and thereby motivating them to comply (Cialdini, 1989). Other researchers have shown that it is more advantageous to assist taxpayers to comply in meeting their tax requirements, rather than incurring more expenses on enforcement activities on evaders. Assisting taxpayers by educating them into becoming more responsible citizens has the potential to yield greater revenue for the tax administration rather than if it were spent on pursuing non-compliers (Devos, 2016).

Tax knowledge is a necessary component of a voluntary tax compliance system (Kasipillai, 2000) and is particularly important in relation to determining an accurate tax liability (Saad *et al.*, 2003). Studies undertaken in Malaysia (Loo *et al.*, 2008, 2009) suggest that tax knowledge may be the most significant determinant of taxpayers' compliance behaviour in a self-assessment system. This is empirically established by other studies (Kasipillai and Jabbar, 2003; Kirchler *et al.*, 2006), which documented that increased tax knowledge led to higher voluntary compliance.

The self-assessment system which is widely used around the world also brings to the fore the issue of non-compliance. The shift of responsibilities to accurately determine a tax liability from the tax administration to taxpayers could be the cause of non-compliance. To fulfil these duties, taxpayers are expected to be familiar with the existing tax laws. This is especially crucial as, for example, in Malaysia, the tax returns submitted by taxpayers are deemed to be their notice of assessment and penalty mechanisms are applied if taxpayers do not submit a correct tax return within the stipulated period. In a self-assessment system, the taxpayer is directly answerable to the tax authorities, should a tax audit be required (Saad, 2014).

Palil's (2005) study supports the notion that tax knowledge is one of the most essential elements enabling taxpayers to assess their own tax payable. It is also a major factor in determining the accuracy of a tax return. Similarly, Udin (2015) is of the opinion that knowledge concerning the computation of a taxpayer's tax liability is one of the most important aspects to enable taxpayers to calculate their tax liability correctly. The authors do, however, acknowledge that there are studies which found that respondents' tax knowledge is not significantly correlated with their tax compliance behaviour in general (Engida and Baisa, 2014; Collins *et al.*, 1992).

The literature reviewed in this section demonstrates the role of tax knowledge in the tax compliance decision as well as the validity of tax knowledge as a factor in improving tax compliance. However, as stated earlier, the authors of the present article are of the opinion that "tax knowledge" was used and measured in an inconsistent manner in the empirical studies reviewed here. This article proposes that tax knowledge is made up of three elements namely, general, legal and procedural knowledge, and that future studies could benefit from applying a framework to analyse and measure tax knowledge as a factor influencing tax compliance.

3. Research methodology

This study is positioned within the interpretivist paradigm. Mc Kerchar (2010, p. 75) explains that "interpretivism provides an understanding of social reality based on the subjective interpretation of the researcher." The authors of the present paper subjectively analysed the literature and statements from individuals to present a framework for understanding and analysing the concept "tax knowledge". The study used a qualitative methodology to build theory using inductive reasoning by means of reviewing literature and other secondary interview data.

The proposition for the framework of tax knowledge was derived from an analysis of literature that was sourced using academic database searches (Scopus, Taylor and Francis and EbscoHost) with keywords such as "taxpayer knowledge" or "tax knowledge" or related concepts. All the literature used is from credible scholarly resources in respected academic journals, government publications or other international organisations within the tax administration community. The literature was systematically reviewed searching for themes relating to general, procedural and legal tax knowledge to draft the proposed framework of tax knowledge.

To further perform a preliminary assessment of the proposed framework, secondary data from interviews conducted by Ramutumbu (2016) with a sample of 23 small business owners in Soweto, South Africa, was used. It is submitted that findings from the analysis of the interview data may support the propositions made in the framework of tax knowledge presented in this article. The interview data used was derived from an open ended question in which respondents were requested to reflect on the challenges or obstacles which they face with regard to complying with tax. A total of 60 statements could be used in the analysis. The data analysis process consisted of a thematic analysis of the responses to assign descriptive codes to each statement. This can be described as a process of "open coding" which according to Leedy and Ormrod (2010, p. 143), is the process of scrutinising the data "for commonalities that reflect categories or themes". The results demonstrated that the three levels of tax knowledge namely general, procedural and legal knowledge are discernible in taxpayers' responses.

The trustworthiness of the study lies in the fact that credible sources were used for the analysis and the fact that after the framework was constructed, preliminary testing of the propositions was done using an additional data set. The analysis of the

statements by the small business owners were also first separately and then jointly analysed by the authors of the present article to increase the confirmability of the results. [Leedy and Ormrod \(2010\)](#) suggest that when a subjective analysis of material is performed, two or three reviewers are preferred and a composite of their judgement should be used.

4. Results and discussion

The objective of the present paper is to develop a conceptual framework of taxpayer knowledge from an analysis of the literature on the topic and then to test the propositions made in the framework using the perspectives of small business owners. From the different uses of the term tax knowledge presented in [Table I](#) above, the three elements, namely general knowledge, procedural knowledge and legal knowledge were derived. Results from the analysis of literature pertaining to these elements are discussed below before the framework is constructed.

4.1 Towards a conceptual framework of tax knowledge

4.1.1 General tax knowledge. General tax knowledge could be equated to what [Kirchler \(2007, p. 31\)](#) describes as subjective tax knowledge or “ordinary people’s understanding of taxation”. [Kirchler \(2007, pp. 39-44\)](#) cites several studies that show that different groups of people “hold distinct cognitive representations and feel differently about taxes”. One aspect that is understood to be a distinct representation of taxes is peoples’ recognition of taxes as “contributing to the public budget”. [Cullis and Lewis \(1997\)](#) refer to this as a “fiscal consciousness”; or it can also be referred to as “tax consciousness”. [Beuhler \(1940, p. 237\)](#) explains that tax consciousness has to do with a “general knowledge of tax burdens and their relations to governmental expenditures”.

An OECD Global Source Book on Taxpayer Education mentions a number of early education programmes by tax authorities in a number of countries. Many of these early education programmes are aimed at developing tax awareness programmes at schools as a means of providing an early initial understanding of the tax system ([OECD, 2013](#)). Such tax awareness programs typically start off focussing on knowledge areas such as:

- why do we pay tax (understanding public goods; the relationship between taxes and spending by government – or the “fiscal exchange”; and the benefits of tax to the community);
- fairness of taxation (who pays tax, how do we pay tax – including choice of the tax base and rate structure);
- tax morality (to create a willingness to contribute to the wellbeing and economic growth of the country; and
- good financial habits (such as saving and budgeting and understanding that keeping your tax affairs in order is part of a good financial habit).

We therefore propose, based on the literature, that “general tax knowledge” means to have a tax awareness, and this includes having an understanding of the aims of governmental fiscal strategies (the “why” of paying taxes and the tax morality element) and to understand one’s own financial position (having a basic financial literacy) and the effect of taxation on one’s own finances (the “who” and “how” of paying taxes).

Another point of importance in the context of general tax knowledge, is the fact that the level of formal education received by taxpayers is an important factor that

contributes to the understanding of tax requirements (Oladipupo and Obazee, 2016). Several studies use formal education as a proxy for tax knowledge and assume that knowledge about taxation increases with the length of formal education. For example, Schmolders (1959) revealed that approval of government activities and fiscal policy was higher in more highly educated groups. Findings from studies by Mathieu *et al.* (2010) and Muehlbacher *et al.* (2011) also support this notion. Further, it is reported by Brackin (2014) that groups who have lower levels of understanding of taxation, also exhibit lower financial literacy.

There appears to be consensus among scholars that higher levels of general tax knowledge are positively associated with higher tax compliance. It also appears that this higher general knowledge is specifically important in two ways, namely:

- (1) It allows taxpayers to understand fiscal policies better.
- (2) It results in taxpayers having a higher financial literacy.

In the context of tax knowledge this translates into the ability to make informed decisions regarding the effect of taxation on their finances.

4.1.2 Legal tax knowledge. Most citizens do not have much understanding of what tax laws mean and why the tax system is structured and administered as it is (Oladipupo and Obazee, 2016). Becoming familiar with and understanding the legal aspects of taxation is often very strenuous. Fjeldstad and Heggstad (2012) argue that even the most clear-cut rule is often open to interpretation, with both tax authority and taxpayers aiming to interpret rules to their advantage. McKerchar (2001b) states that people blame the complexity of the tax law for their feelings of tax incompetence and lose interest in the system. This may result in taxpayers not even attempting to understand tax terminologies and distancing themselves from the tax system.

The situation becomes particularly challenging because tax laws tend to be changed frequently and to be more complex and ambiguous than laws in general. Tax laws are often too complex to be understood by laymen, which many small business owners undoubtedly are. An Austrian study indicated that small business owners' tax knowledge was less than that of business students (Kirchler *et al.*, 2012). Tax practitioners also acknowledge that the complexity of taxation makes compliance especially difficult to achieve for many small businesses (Oladipupo and Obazee, 2016).

It can therefore be inferred from the above that legal tax knowledge includes a dimension of broad understanding of legal terminologies in complex tax legislation. It can also be argued that legal tax knowledge includes the ability to apply specific rules and legislation to accurately determine your tax liability.

Lai *et al.* (2013) support the argument that two dimensions of legal tax knowledge can be discerned. They cite Gore and Wong (1998) to distinguish between "declarative knowledge" – being the detailed tax rules and facts, and "procedural knowledge" – being the skill to apply these rules. They further explain that procedural knowledge is about "knowing how", while declarative knowledge is about "knowing that" (e.g. knowing that salary income is taxable). In the present research, the term "technical knowledge" is used by the authors to describe what Lai *et al.* (2013) suggest to be "procedural knowledge".

A number of studies reflect that there is a relationship between taxpayers' ability to understand and apply the laws and legislation of taxation and their ability to comply (see for example Palil, 2010; Loo *et al.*, 2008; Saad, 2014). Kamleitner *et al.* (2012) also contend that the extent of non-compliance emanating from the lack of

knowledge caused by complex requirements for reporting and submitting tax returns is potentially very large.

Evidence presented by [Chardon \(2014\)](#) makes it clear that, for many individuals, being unintentionally non-compliant in relation to their tax obligations is one of the many challenges they face in participating in any aspect of their finances. In one of the earliest surveys on subjective concepts and evaluations of taxes, [Schmolders \(1959\)](#) found that German citizens had only a vague knowledge about taxes. Although the majority had an approximate understanding of their income tax, they only made vague guesses about the overall taxes they paid in their households.

[McKerchar \(1995\)](#) suggests that small business taxpayers in Australia are not even aware of their lack of tax knowledge. [McKerchar's \(1995\)](#) study indicated that there is both the capacity and the need to improve the level of knowledge of taxation of small business taxpayers but that any improvement in the level of knowledge could only occur where the small business taxpayers are convinced of their lack of knowledge and of their need to be (re-) educated.

Further support for the fact that legal tax knowledge should be identified as having different dimensions can be inferred from [Brackin's \(2014\)](#) study. In asking Australian taxpayers about the role that having an understanding of the taxation system plays in a person's overall financial capability, she identified a theme from their responses which relates to the concept of having a broad understanding of how you were taxed (thus conceptual knowledge). Another theme she identified relates to respondents identifying a more applied understanding of tax legislation (or technical knowledge) in that respondents realised that they are not always able to apply tax legislation to their own situation and recognised that they need to contact somebody for help. [Tan and Veal \(2005\)](#) also mention that the distinguishing factors between conceptual knowledge and technical knowledge in the context of tax education are an *awareness and evaluation* of knowledge in the case of conceptual knowledge, and the *application* of knowledge in the case of technical knowledge.

In summary, it can be proposed that legal knowledge comprises of the following two dimensions:

- (1) an understanding of tax legislation on a conceptual level (in other words a high-level awareness of legislation terminology and an ability to distinguish between different concepts in taxation); and
- (2) understanding of tax legislation on a technical level (in other words the ability to apply legal tax knowledge to your specific situation and comply accurately with your tax obligation).

4.1.3 Procedural tax knowledge. An appropriate level of knowledge about the procedural aspects of tax laws is required in many countries, especially in a system of self-assessment. Taxpayers need to be aware of the processes and responsibilities of being tax compliant as they are required to interact with the tax authority to submit tax forms on time, produce supporting documents and make timely tax payments.

An interesting finding from [Tallaha et al. \(2014\)](#) supports the claim that procedural tax knowledge can be distinguished and can exist separately from legal tax knowledge. They found that taxpayers' intention to use E-filing is not dependent on their (legal) tax knowledge and they remark that E-filing is manageable for most people, even with minimal tax knowledge. It is therefore submitted that this indicates that an element of procedural knowledge is present – e.g. knowing how and when to file a tax return. [Tallaha et al. \(2014\)](#) further agree that the ability to use E-filing does

not necessarily mean taxpayers have filed their tax returns correctly, especially those lacking appropriate legal tax knowledge, and they call for taxpayers to be equipped with appropriate knowledge about tax rules and legislation.

[Oladipupo and Obazee \(2016\)](#) envisage procedural knowledge as:

- the understanding of why the tax system is structured and administered as it is;
- the understanding of tax requirements, especially regarding registration and filing requirements;
- knowledge about the different compliance measures;
- a level of awareness and sensitivity about procedures and processes related to the responsibility of filing tax returns;
- an understanding of the processes and responsibilities of being tax-compliant; and
- timeliness, accuracy and adequate record keeping to complete and submit tax returns and associated documents.

Based on this, it is proposed that procedural tax knowledge could be expressed in terms of two elements, namely:

- (1) interacting with the tax authority (which includes submitting forms, paying amounts due and dealing with queries); and
- (2) keeping the necessary records for tax purposes.

The lack of computer literacy by taxpayers may be an indication that taxpayers may experience a lack of procedural tax knowledge, especially in the electronic filing environment. [Jankeepsad et al. \(2016\)](#) indicate that computer-self-efficacy is a determinant of the intention to use electronic tax filing services (or E-filing). In other words, the intention to E-file is in part determined by a person's knowledge of how to E-file. It can therefore be inferred that this type of "know how" (for example to submit tax returns electronically, register online and submit supporting documentation to the tax authority) is an element of tax knowledge needed by a taxpayer to be tax compliant.

Procedural compliance may be more difficult to attain for smaller businesses as opposed to larger businesses. [Ahmed and Braithwaite's \(2005\)](#) study showed that Australian small business owners felt less proficient in completing and submitting their tax returns than employees. Small business owners are required to be familiar with the onerous, procedural aspects of taxation and most still tend to handle part of the taxpaying process themselves and to keep the necessary records, even though they feel unqualified to file their taxes appropriately.

[Sakurai and Braithwaite \(2003\)](#) surveyed more than 2000 Australian taxpayers and found that a relatively small percentage of respondents described themselves as fully competent to do their own tax returns. The problem is exacerbated by the onerous amount of paperwork required to be fully tax compliant ([Saad, 2014](#)). In many countries it is necessary to complete numerous complex forms and to keep detailed records. Understanding the importance of proper recordkeeping relating to tax payments can be achieved through improved procedural tax knowledge.

4.2 A framework for understanding and analysing "tax knowledge"

As suggested by the thematic review of the literature, the concept of "tax knowledge" should include elements which were labelled by the authors as "general tax knowledge"; "procedural tax knowledge"; and "legal tax knowledge". It was also shown in Section 4.1 that each of these elements has distinct dimensions of their own.

A proposed framework for understanding and analysing tax knowledge which includes the above three elements is presented in **Figure 1** below.

The framework summarises the essential elements of what is proposed to comprise legal knowledge, procedural knowledge and general knowledge as gathered from the discussion presented in Section 4.

In the next section, the results of the qualitative analysis of the data from the interviews by **Ramutumbu (2016)** are presented and discussed.

Statements made by the respondents to the question of “what do you deem to be your biggest challenge in being tax compliant?” were analysed with a view to find further support for the components of the proposed tax knowledge framework. At a first level, codes were assigned to capture the essence of what the respondents expressed in terms of their knowledge requirements pertaining to being tax compliant. These codes are:

- complex terminology;
- context specific knowledge;
- completing and submitting tax forms; and
- record keeping.

In addition, some responses were assigned the code “general awareness” to capture an expression by respondents of being aware of the tax implications of being a small business owner and which could be an indication of their general tax knowledge.

The coded statements were then clustered according to the categories: “a need to understand legislation” and “a need to understand procedures”. Finally this is linked to the themes “legal tax knowledge” and “procedural tax knowledge” and reference to supporting literature is provided in support of the results.

4.3 Results of the qualitative analysis of small business owners’ statements

A total of seventy-eight statements were analysed and assigned codes as described above. Of these statements, eighteen were found to reflect neither any expression of a need to

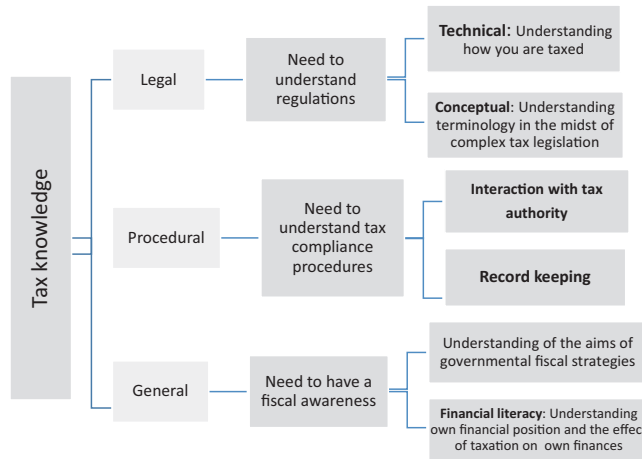


Figure 1.
A framework for understanding and analysing tax knowledge

Source: Authors’ own presentation

understand legislation or procedures nor a general awareness of tax or accounting matters and were therefore not suitable for further analysis. Of the remaining sixty statements, just more than half pertained to a need to understand procedural matters relating to the taxation and record keeping for tax purposes for a small business. The remainder of the statements were roughly equally divided between expressions relating to legal knowledge and general knowledge.

4.3.1 Results reflecting a need for legal knowledge. Some responses pointed out respondents' perception that tax legislation is complex and difficult to understand:

- "Make it easy to understand the tax regulations."
- "The jargon is not easy for me to understand."
- "Language of the regulations should be simplified."
- "I do not understand the tax regulations."

Ramutumbu (2016) supports this perception by respondents with quantitative results from the same population, revealing that 65 per cent of this population believe that the tax rules are so complex that it is very difficult to get a tax return exactly right, while 74 per cent of the respondents believe that it is difficult to keep up with changes in tax laws.

Many scholars, some whom were cited earlier, expressed views that non-compliance may to a large extent emanate from the lack of knowledge caused by complex requirements [see for example Kamleitner *et al.* (2012); Mc Kerchar (2001b); Saad (2014)].

A second theme that emerged was a need to understand legislation in the context of your specific needs – in this case the tax rules that apply to the small business owner. It was clear that respondents need to understand, for example, what deductions are allowed in the context of operating a guest house (where business and personal income and expenses could easily become intermingled). Some responses concerning this theme are:

- "Conflict between my business and personal taxes."
- "There are some of the expenditure which SARS doesn't recognise for small businesses, e.g. transport costs, groceries, etc."
- "SARS needs to appreciate that small business owners require constant education with regards to tax matters, rebates and other regulations."
- "More workshops are needed by SARS to assist how to compile figures for small businesses."
- "Educate us on how to do our own income tax statements."

It would thus appear that respondents believe that being a small business owner places a burden of acquiring and applying tax knowledge specific to your situation. Studies by Saad (2014) and others, as pointed out in the analysis of the literature pertaining to legal tax knowledge referred to earlier, support the notion that self-employed individuals have little understanding of the more technical aspects of the tax system relating to more onerous tax issues.

This differentiation between pure legal knowledge and context-specific knowledge is reminiscent of the distinction made by tax educators between "conceptual knowledge" and "technical ability", as shown by Tan and Veal (2005). They argued that conceptual tax knowledge is about an awareness and evaluation of knowledge, while technical tax knowledge is about the application of knowledge.

This shows that taxpayers have a need for better understanding of tax legislation, but also that this need is expressed on two levels, namely 1) understanding complex

terminology, and 2) understanding legislation specific to individual needs (in this case the context of the small business owner).

It is submitted that the results revealed the need to have a basic understanding of tax legislation, support the idea that legal knowledge is an important element of the framework of tax knowledge and the belief that the framework can play a role in future research endeavours to understand tax compliance.

4.3.2 Results reflecting a need for procedural knowledge. It was pointed out earlier that procedural knowledge relates to a need to understand the procedures relating to being tax compliant and includes knowledge of tax forms, systems and interacting with tax authorities, as well as knowing how to keep records to be tax compliant. The large number of responses relating to procedural knowledge shows that knowledge on tax related procedures is a discernible element of the concept “tax knowledge” and deserves distinct consideration in studies aimed at assessing the tax knowledge of a target population. Some of the responses coded with “completing and submitting tax forms” or “interaction with revenue service” included statements as shown below:

- “Tax returns are difficult to understand.”
- “No examples/templates on the internet to help.”
- “Training was not helpful as there was no format given on how the returns should look like.”
- “Assistance from tax employees in understanding how to fill in the form.”
- “I do not know which services to access at SARS because of lack of education.”

The degree of computer literacy may play a role in the confidence these respondents have in their procedural knowledge in so far as it pertains to completing and submitting forms or contacting the revenue service electronically. This is supported by [Jankeepsad *et al.* \(2016\)](#) who found computer literacy to be one of the major determinants of the intention to E-file.

Regarding “record keeping”, some respondents clearly expressed a need for a better understanding of how and which records to keep for accounting and tax purposes:

- “It is difficult to keep all the receipts for the whole year, slips get lost.”
- “More knowledge so that we can do the books on our own.”
- “It is difficult to write down all of your expenditure.”
- “I do not know how to do income and expense statements.”
- “It would be helpful if we got a template along with the programme or get an app that we fill in on a monthly basis and it consolidates at the end of the tax year.”

[Lai *et al.* \(2013\)](#) suggest that procedural tax knowledge includes the “know how” to, for example, compute personal income tax. In other words, it appears that their interpretation of procedural knowledge is about being able to apply legal tax knowledge correctly. However, in the context of the proposed framework it is submitted that procedural knowledge relates to the “know how to perform the underlying actions” to be in a position to comply fully with tax legislation, which includes knowing how to complete forms and which records to keep. For some taxpayers, this may mean knowing when it is best to leave all tax related matters to a tax practitioner or accountant.

After clustering the responses according to the first level descriptive codes, it was clear that there was a distinct differentiation in responses pertaining to a need to understand legislation and a need to understand procedures. The conclusion reached with the

qualitative analysis of the responses is that the proposed framework for tax knowledge as presented with [Figure 1](#) is supported in terms of the distinction between legal and procedural knowledge.

4.3.3 Results reflecting general knowledge as an element of tax knowledge. It was stated earlier that general tax knowledge relates to the level of formal, general education received by taxpayers that contributes to their understanding of tax requirements. The demographic profile of the respondents reveals that the majority held a post matric qualification ([Ramutumbu, 2016](#)). This indicates that these entrepreneurs are generally well educated and should be able to understand the tax requirements, especially regarding registration and filing – an inference made based on the observation by [Oladipupo and Obazee \(2016\)](#) that there is a significant relationship between the general education received by taxpayers and an understanding of tax requirements.

[Ramutumbu's \(2016\)](#) study also revealed that these respondents do have a positive attitude towards tax and demonstrate a pronounced willingness to be tax compliant (despite their indication that they lack the requisite knowledge to get a tax return submission exactly right). This finding supports earlier research on tax compliance which generally finds that higher education levels are positively associated with tax compliance [see evidence presented earlier from [Mathieu et al. \(2010\)](#), [Muehlbacher et al. \(2011\)](#) and [Wong and Lo \(2015\)](#)].

As suggested in the framework of tax knowledge, general tax knowledge encompasses an understanding of the aims of governmental fiscal strategies and an understanding of one's own financial position and the effect of taxation on your own finances. The responses were analysed in this respect by assigning the code "general awareness" to responses that displayed an element of awareness of either the importance or the effect of taxation on their small business. These responses are:

- "You (your business) will not get contracts without complying with the tax regulations."
- "Small businesses have to pay a certain amount of tax whereas not much income is earned."
- "Having to pay all types of tax: VAT, income tax, business tax."
- "Not yet registered for tax, have not reached the tax threshold."
- "I am happy. I am content. I have a good understanding of tax matters."
- "It will assist businesses if they were not compelled to submit tax information as long as their income is under R 1,500,000."

It appears that no responses specifically referred to a broad understanding of government's fiscal strategies but rather displayed a narrow understanding of the effect of taxation on their business. However, based on the literature reviewed in Section 4.1, the authors of this article maintain that general tax knowledge could be discernible on the two levels as proposed in [Figure 1](#).

5. Conclusion

This article presents evidence from previous studies which indicates that tax knowledge is positively related to tax compliance. It was also shown that tax knowledge is a relevant factor influencing small business owners' tax compliance. It was argued that the concept "tax knowledge" is not well defined in the tax compliance

literature and generally used in a broad sense and that a standardised framework for the concept of tax knowledge could be useful for future research. This paper constructed a conceptual framework by means of an in-depth review of the literature and illustrated that tax knowledge consists of three discernible elements namely general, procedural and legal tax knowledge. Within each element distinct dimensions were also identified, as is illustrated in [Figure 1](#).

In analysing responses from a number of small business owners in earlier research, it was concluded that the framework appears to be valid in terms of the three elements of tax knowledge as proposed. It is suggested that the framework could be used to analyse the tax knowledge of individual taxpayers (in particular for individuals such as small business owners) and a suggestion for further research is that the strength and importance of each element as a factor influencing tax compliance could be determined.

It is suggested that overall education level is a strong indicator of potential tax compliance. Tax education specifically should include not only technical and procedural tax knowledge, but also an increased awareness of the motivation that should accompany a voluntary compliant attitude.

Better understanding of taxpayer behaviour and understanding the role that tax knowledge plays in compliance behaviour can place tax administrators in a better position to influence the compliance behaviour of its taxpayer population and prepare more targeted strategies to enhance the different elements of tax knowledge.

References

- Ahmed, E. and Braithwaite, V. (2005), "Understanding small business taxpayers – issues of deterrence, tax morale, fairness and work practice", *International Small Business Journal: Researching Entrepreneurship*, Vol. 23 No. 5, pp. 539-568.
- Bardai, B. (1992), "Tax illiteracy in Malaysia: problems and solutions", *Journal of the School of Accountancy Mara Institute of Technology*, Vol. 2, pp. 6-35.
- Beuhler, A. (1940), "The tax system and tax consciousness", *The Bulletin of the National Tax Association*, Vol. 25 No. 8, pp. 237-246.
- Brackin, T. (2014), *Taxation as a Component of Financial Literacy – How Literate are Australians in Relation to Taxation?*, Griffith Department of Accounting, Finance and Economics, Brisbane.
- Braithwaite, V., Reinhart, M. and Smart, M. (2010), *Tax Non-Compliance among the under-30s: Knowledge, Obligation or Scepticism: Developing Alternative Frameworks for Explaining Tax Compliance*, Routledge, London.
- Chardon, T. (2014), "Taxation and superannuation literacy in Australia: what do people know (or think they know)?", *JASSA: The Finsia Journal of Applied Finance*, No. 1, pp. 44-50.
- Cialdini, R. (1989), *Social Motivations to Comply: Norms, Values and Principles. Taxpayer Compliance: Social Science Perspective*, University of Pennsylvania Press, Philadelphia, pp. 200-207.
- Coleman, C. and Wilkens, M. (1995), "How do you want to play-honest? Research into motivation for taxpayer compliance", in Walpole, M. and Evans, C. (Eds), *Tax Administration in the 21st Century*, pp. 255-264.
- Collins, J., Milliron, V. and Toy, D. (1992), "Determinants of tax compliance: a contingency approach", *The Journal of American Taxation Association*, Vol. 14, pp. 1-29.
- Cullis, J.G. and Lewis, A. (1997), "Why people pay taxes: from a conventional economic model to a model of social convention", *Journal of Economic Psychology*, Vol. 18 Nos 2/3, pp. 305-321.
- Devos, K. (2016), "A comparative study of compliant and non-compliant individual taxpayers in Australia", *Journal of Business and Policy Research*, Vol. 2 No. 2, pp. 180-196.

- Engida, T. and Baisa, G. (2014), "Factors influencing taxpayers' compliance with the tax system: an empirical study in Mekelle city, Ethiopia", *eJournal of Tax Research*, Vol. 12.
- Eriksen, K. and Fallan, L. (1996), "Tax knowledge and attitudes towards taxation: a report on a Quasi experiment", *Journal of Economic Psychology*, Vol. 17 No. 3, pp. 387-402.
- Fjeldstad, O. and Heggstad, K. (2012), *Building Taxpayer Culture in Mozambique, Tanzania and Zambia: Achievements, Challenges and Policy Recommendations*, Chr Michelsen Institute and the International Center for Tax and Development, Bergen.
- Gore, R. and Wong, B. (1998), "The acquisition and transfer of tax skills", *The Journal of the American Tax Association*, Vol. 20 No. 2, pp. 117-126.
- Groenland, E. and Veldhoven, G. (1983), "Tax evasion behaviour: a psychological framework", *Journal of Economic Psychology*, Vol. 3 No. 2, pp. 129-144.
- Hasseldine, J., Holland, K. and Rijdt, P. (2009), *The Management of Tax Knowledge. The Association of Chartered Certified Accountants*, ACCA, London.
- Hofmann, E., Voracek, M., Bock, C. and Kirchler, E. (2017), "Tax compliance across sociodemographic categories: meta-analyses of survey studies in 111 countries", *Journal of Economic Psychology*, Vol. 62, pp. 63-71.
- Jankeepsad, R.W., Jankeepsad, T.R. and Nienaber, G. (2016), "Acceptance of the electronic method of filing tax returns by South African taxpayers: an exploratory study", *Journal of Economic and Financial Sciences*, Vol. 9 No. 1, pp. 120-136.
- Kamleitner, B., Korunka, C. and Kirchler, E. (2012), "Tax compliance of small business owners", *International Journal of Entrepreneurial Behavior and Research*, Vol. 18 No. 3, pp. 330-351.
- Kasipillai, J. (1997), "Aspects of hidden economy and tax non compliance in Malaysia", Unpublished doctoral dissertation, University of New England, Armidale.
- Kasipillai, J. (2000), *A Practical Guide to Malaysian Taxation-Current Year Assessment*, McGraw-Hill, Kuala Lumpur.
- Kasipillai, J. and Jabbar, H. (2003), "Tax compliance attitude and behaviour: gender and ethnicity differences of Malaysian taxpayers", *The Malaysian Accountant*, pp. 1-7.
- Kirchler, E. (2007), *The Economic Psychology of Tax Behavior*, Cambridge University Press, Cambridge, pp. 31-49.
- Kirchler, E., Alm, J. and Muehlbacher, S. (2012), "Combining psychology and economics in the analysis of compliance: from enforcement to cooperation", s.l.: Tulane Economics Working Paper Series: Working paper 1212.
- Kirchler, E., Niemiowski, A. and Wearing, A. (2006), "Shared subjective views, intent to cooperate and tax compliance: similarities between Australian taxpayers and tax officers", *Journal of Economic Psychology*, Vol. 27 No. 4, pp. 502-517.
- Kornhauser, M. (2007), "A tax morale approach to compliance: recommendations for the IRS", *Florida Tax Review*, Vol. 8, pp. 138-180.
- Lai, M., Zalilawati, Y., Amran, M. and Choong, K. (2013), "Quest for tax education in non-accounting curriculum: a Malaysian study", *Asian Social Science*.
- Leedy, P.D. and Ormrod, J.E. (2010), *Practical Research: Planning and Design*, 9th ed., Pearson Education, Boston.
- Loo, E., McKerchar, M. and Hansford, A. (2008), "Tax compliance behaviour: findings derived from a mixed methods design", Paper presented at the 8th International Tax Administration Conference, Sydney.
- Loo, E., McKerchar, M. and Hansford, A. (2009), "Understanding the compliance behaviour of Malaysian individual taxpayers using a mixed methods approach", *Journal of the Australasian Tax Teachers Association*, Vol. 4, pp. 181-202.
- McKerchar, M. (1995), "Understanding small business taxpayers: their sources of information and level of knowledge of taxation", *Australian Tax Forum*, Vol. 12 No. 1, pp. 25-41.

- McKerchar, M. (2001a), "Why do taxpayers comply? Past lessons and future directions in developing a model of compliance behavior", *Australian Tax Forum*, Vol. 16, pp. 99-134.
- McKerchar, M. (2001b), "The study of income tax complexity and unintentionally non compliance. Research method and preliminary findings", ATAX discussion paper. University of Sydney, Orange.
- McKerchar, M. (2010), *Design and Conduct of Research in Tax, Law and Accounting*, Thomson Reuters, Sydney.
- Mathieu, L., Price, C. and Antwi, F. (2010), "The distribution of UK personal income tax compliance costs", *Applied Economics*, Vol. 42 No. 3, pp. 351.
- Muehlbacher, S., Kirchler, E. and Schwarzenberger, H. (2011), "Voluntary versus enforced compliance: empirical evidence for the 'slippery slope' framework", *European Journal of Law and Economics*, Vol. 32 No. 1, pp. 89-97.
- Niemirowski, P., Baldwin, S. and Wearing, A. (2002), "The determinants of Australian taxpayers' compliance behaviour: the influence of tax related values, beliefs, attitudes and behaviour", *ATO research report*, Commonwealth of Australia.
- OECD (2013), "Building tax culture, compliance and citizenship: a global source book on taxpayer education".
- Oladipupo, A. and Obazee, U. (2016), "Tax knowledge, penalties and tax compliance in small and medium scale enterprises in Nigeria", available at: <http://dx.doi.org/10.4236/ib.2016.81001>
- Olsen, N. (2015), "Procedural justice for all: a taxpayer rights analysis of IRS earned income credit compliance strategy in advances in taxation", available at: <http://dx.doi.org/10.1108/51058> (accessed 30 November 2015).
- Onu, D. and Oats, L. (2015), *Tax Talk: what Online Discussions about Tax Reveal about Our Theories*, s. l.: Tax Administration Research Centre.
- Organisation for Economic Co-operation and Development (OECD) (2009), "Managing and improving compliance: recent developments in compliance risk treatment", s. l.: Forum on Tax Administration: Compliance Sub-group. Centre for Tax Policy and Administration.
- Palil, M. (2005), "Does tax knowledge matter in a self-assessment system", *Journal of American Academy of Business*, Vol. 6 No. 2.
- Palil, M. (2010), "Tax knowledge and tax compliance determinants in a self-assessment system in Malaysia", Phd thesis, University of Birmingham, Birmingham.
- Pickhardt, M. and Prinz, A. (2014), "Behavioral dynamics of tax evasion – a survey", *Journal of Economic Psychology*, Vol. 40, pp. 1-19.
- Ramutumbu, P. (2016), *Tax Compliance Behaviour of Guest House Owners*, Universtiy of Johannesburg, Johannesburg.
- Saad, N. (2014), "Tax knowledge, tax complexity and tax compliance: taxpayers' view", *Procedia - Social and Behavioural Sciences*, Vol. 109, pp. 1069-1075.
- Saad, N., Mansor, M. and Ibrahim, I. (2003), "The self-assessment system and its compliance costs", Paper presented at the Accounting Seminar.
- Sakurai, Y. and Braithwaite, V. (2003), "Taxpayers' perceptions of practitioners: finding one who is effective and does the right thing", *Journal of Business Ethics*, Vol. 46 No. 4, pp. 375-387.
- Sapiei, N., Kasipillai, J. and Eze, U. (2014), "Determinants of tax compliance behaviour of corporate taxpayers in Malaysia", *eJournal of Tax Research*, Vol. 12 No. 2, pp. 383-409.
- Schmolders, G. (1959), "Fiscal psychology: a new branch of public finance", *National Tax Journal*, Vol. 12 No. 4, pp. 340-345.
- Tallaha, A.M., Shukor, Z.A. and Hassan, N. (2014), "Factors influencing e filing usage among Malaysian taxpayers: does tax knowledge matter?", *Jurnal Pengurusan*, pp. 91-101.
- Tan, L.V. and Veal, J. (2005), "Tax knowledge for undergraduate accounting majors: conceptual vs technical", *E Journal of Tax Research*, Vol. 3 No. 1, pp. 28-44.

Udin, N. (2015), *Malaysian Tax System and Individual Tax Knowledge*, University Utara Malaysia.

White, R., Curatola, A. and Samson, W. (1990), "A behavioural study investigating the effect of knowledge of income tax laws and tax policy on individual perceptions of federal income tax fairness", *Advances in Taxation*, Vol. 2, pp. 165-185.

Wong, R. and Lo, A. (2015), "Can education improve tax compliance? Evidence from different forms of tax education", HKIBS Working Paper Series 074-1415, available at: <http://commons.ln.edu.hkibswp/93>

Corresponding author

Pusheletso Ramutumbu can be contacted at: pramutumbu@uj.ac.za

For instructions on how to order reprints of this article, please visit our website:

www.emeraldgrouppublishing.com/licensing/reprints.htm

Or contact us for further details: permissions@emeraldinsight.com

Reproduced with permission of copyright owner. Further reproduction prohibited without permission.