Minimizing falsified financial reports: just an opinion on South African taxes

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Abstract:
The study criticizes the way South Africa collects taxes from different segments of the population, primarily pensioners and workers with two sources of income. It also condemns the ineffective manner in which it administers some tax payouts, especially in the unfairness that has shown bias to some groups. Primarily, taxing of the pensioners is condemned, as well as the taxing of second earnings of employees, mainly where there were victims of the apartheid policies. The paper recommends taxing people with caution, in order not to perpetuate apartheid-initiated poverty of the South African masses of people, and in cases where earners who are being taxed could be having extra financial responsibilities. In order to resolve these problems, taxpayers and tax preparers should make sure that tax laws are applied correctly, that they are aware of the consequences of breaking the Generally Accepted Accounting Principles (GAAP), and that they routinely review and update their tax return positions in response to modifications to accounting standards and tax legislation.

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INTRODUCTION
The concept of Generally Accepted Accounting Principles (GAAP) is a collection of commonly followed accounting rules and standards for financial reporting, aimed at ensuring transparency and consistency in financial statements (Renaldo & Sevendy, 2023). GAAP is a set of standard accounting principles, procedures, and standards that companies use to compile their financial statements. GAAP emerged in the 1970s and is used primarily in the United States, with the U.S. Securities and Exchange Commission mandating that financial reports adhere to GAAP requirements. The Financial Accounting Standards Board is responsible for issuing and frequently revising GAAP standards. Using GAAP ensures that financial information is consistently and accurately reported.

GAAP can be traced back to the aftermath of the Stock Market Crash of 1929 and the Great Depression. The U.S. government, along with professional accounting groups, sought to create standards for the accurate and transparent reporting of financial information to restore investor confidence and prevent fraudulent practices. However, the International Financial Reporting Standards (IFRS), a set of accounting rules for the financial statements of public companies, aiming to make them consistent, transparent, and easily comparable around the world, has technically replaced GAAP in some countries (Rouvolis, 2022). However, neither GAAP nor IFRS is used in all countries.

Modern accounting techniques have evolved from traditional accounting methods, incorporating technology and software to automate and improve various aspects of financial management. These techniques have improved the way businesses manage their finances, providing real-time data, improving decision-making, and enhancing overall financial performance.

The South African Revenue Service (SARS) applies various accounting systems that includes the eFiling service that is integrated with software for the submission of various returns required by SARS (Van Rooi, 2012). Pearson, Saunders and Galletta (2024)
suggest that the Sage accounting software also helps businesses to get their tax returns compliant with the latest legislation by SARS. SARS also determines a more accurate monthly PAYE deduction tax rate for pensioners with more than one source of income by using the latest data available to SARS. Additionally, SARS allows businesses to claim the Employment Tax Incentive (ETI) under certain circumstances.

Large corporations prepare different SARS reports, and some unduly get millions of tax returns, such as R70m by Gupta’s in 2017 (Serrao, 2017). Pensioners supplement their earning by looking for various sources of income. These are usually people who earn less, trying to raise funds and are taxed on each earning. Why should anyone be taxed on additional sources of earnings when the intent of it is to escape poverty? The government also given no consideration to pensioners from previously disadvantaged communities, who may have never received a decent earning. On the other hand, the Guptas are very rich and influential business family from India, with close ties to a former South African president (Bhorat, Buthelezi, Chipkin et al., 2017; Desai & Vahed, 2017), who were given South African citizenships mainly as a corrupt arrangement to loot the state funds.

This papers aims to develop a criticism of the tax collection methods employed by South Africa, particularly targeting retirees and individuals with dual income streams.

Furthermore, it scrutinises the ineffective approach it employs in managing various tax disbursements, specifically highlighting the inequity that has exhibited prejudice towards some demographics. First and foremost, there exists a conflict between the taxes of retirees and the taxation of second earnings of employment. This assertion holds particular validity in regions where individuals were subjected to the adverse effects of apartheid governmental measures. To mitigate the perpetuation of poverty resulting from apartheid within the South African population, this study proposes a cautious approach towards individual taxation. This holds particular significance in circumstances wherein individuals subject to taxation may own other financial obligations.

In order to address these concerns, it is imperative for taxpayers and tax preparers to undertake the subsequent measures: they must ensure the proper application of tax laws; they should possess knowledge regarding the repercussions associated with contravening the Generally Accepted Accounting Principles (GAAP); and they should regularly assess and revise their tax return positions in light of alterations to accounting standards and tax legislation.

The study design was qualitative, consisting of text/qualitative data critiquing the current tax policies and practices. Tax data collection from reliable sources that deal with SARS and taxes in the case of South Africa forms the core of the methodology of this paper. Hence, data collected were secondary. Data analysis consists of interpretive phenomenology that involves a co-construction of meaning between the researcher and the research participants (Qutoshi, 2018). It also formed themes as part of the interpretations the generated ideas for results and recommendations. The reliability and validity of the study were based on the authenticity of the data sources, which this study employed.

**Literature Review**

**Theoretical and Conceptual Background**

Some key modern accounting techniques include *leveraging technology, real time inventory management, process management, balanced scorecard, activity-based method, value-based management, non-financial performance measures, and continuous accounting* (Hussey & Ong, 2021). They are explained below.

*Leveraging technology:* The use of digital tools and software to streamline the accounting process, reduce manual work, and improve accuracy.

*Real time inventory management:* The use of technology to track and manage inventory levels in real-time, allowing businesses to make informed decisions based on current stock levels and demand.

*Process management:* Modern management accounting techniques have improved process management by focusing on efficiency and effectiveness in various financial operations.

*Balanced scorecard:* A strategic planning tool that translates strategic objectives into specific objectives and performance measures across four perspectives: financial, customer, internal processes, and learning and growth.

*Activity-based method:* A method that allocates overhead costs to specific activities or products, allowing businesses to better understand the costs associated with each product or service.

*Value-based management:* A technique that focuses on aligning business activities with customer value, ensuring that resources are allocated to projects that deliver the highest value to customers.

*Non-financial performance measures:* The use of non-financial metrics, such as employee engagement, customer satisfaction, and environmental impact, to evaluate a company’s overall performance.

*Continuous accounting:* The application of digital technology to track and reconcile virtual transactions in real-time, allowing for more frequent and accurate financial reporting.
Issues of Different Methods

Different methods offset uniformity and standardization. Using different methods can present various issues across different domains, and often revolve around the need for alignment with specific goals, contexts, and the potential for varying effects (Hadida & Odiase, 2024). According to Schwebke (2024), using different methods in tax returns can lead to issues such as incorrect filing, delayed payment, malpractice, and non-compliance with tax laws. Lack of standardization is a loophole for innovativeness, and creativity (Sawyer & Henriksen, 2024). When taxpayers are allowed creativity is tax returns, and the monitoring and evaluation is neither reliable nor valid, a tax collector can be deceived. This is the hypothesis that this paper makes.

Reasons People Find Additional Sources of Earning

People strive to obtain additional sources of earning for numerous reasons (Daruich & Fernández, 2024). The reasons include achieving financial freedom, covering extra costs (such as rising healthcare costs), job security, low earning in first job, paying off debt, pursuing passions, opening up unique work opportunities, saving money, saving for big purchases, diversifying income streams, and supplementing income to ease financial burden. Altman (2007) also explains that having multiple income streams can also provide flexibility, passive income opportunities, and work-from-home arrangements. With advancements in technology, there are many alternate income sources such as starting a home business, working a part-time job, receiving rent from a property, royalties from books, blog, freelancing, YouTube channel, coaching classes, investment in mutual funds, and several others. Some people engage in these additional earnings to sponsor charitable causes, and black tax (Dunkley, 2024), where multiple earners have to assist families members who have no breadwinners. In certain cases, a family may have invested heavily in one person (usually a first-born child) to help them rise, and once that person secures employment, they may be required to return the favour by helping other family members while they benefit from their employment. Cases such as these, lead to stress and additional earning(s) could serve for coping (Thompson, 2024). Since not everyone with these additional expenses is aware of how to report them in order to lessen their tax burden, tax deductions that are not tailored to the individual may therefore perpetuate poverty.

Necessity to Collect Tax Revenue

South Africa, like every other developing nation, needs to collect revenue in the case that SARS was legislated to do (Nadat, 2022). Other revenue collectors are though gambling enterprises that administer casinos, sports betting, the National Lottery, limited payout machines, and bingo, among others (Lusha, 2024; NGB, 2019). However, there was state capture and other initiatives of corruption that take away money generated through these collections (Ismail & Richards, 2023). If South Africa were desperate to collect revenue, there would be no room for losing money through corrupt creativities (Lessig, 2015).

Implications of Falsified Financial Reports

The study on falsified financial reports has several implications for various stakeholders. As Akpanuko and Umoren (2018) point out, for investors, falsified financial reports can lead to poor investment decisions. This is because they may not accurately reflect the company’s financial health, which can result in financial losses and reputational damage for the company. For creditors, such as banks and the small and medium enterprises’ administration, falsified financial reports can lead to inaccurate creditworthiness assessments (Griffin, 2021). This also has potential to result in inappropriate credit lines and increased risk for creditors. For regulators, such as the Securities and Exchange Commission, Wei et al. (2022) intimate that falsified financial reports can lead to legal action, penalties, and fines. For the economy as a whole, falsified financial reports can lead to inaccurate economic decisions, which can have significant impacts on the real economy, including recessions and financial crises. Therefore, this study can shed light for resolving these dilemmas.

Findings and Discussions

Findings

The study results reflect initially on the R70 million that was returned to the Gupta group in the form of tax return, mentioned in the problem statement, in relation to the due tax level. This reference is evaluated against corporate taxes. The paper then makes special references to the deficiency in SARS regarding workers in multiple jobs. The case of pensioners then follows.

Extracts for analysis

Corporate tax: The fraction of tax that SARS takes from corporate earnings depends on the specific tax bracket and the company’s taxable income (Madubedube, 2022). For the years of assessment ending on or after March 31, 2017, the rate of Corporate Income Tax payable was 28% (PricewaterhouseCoopers [PwC], 2023).

Multiple income earners’ tax: SARS does not provide specific information on taxing employees with more than one source of funds (Young, 2021). However, the SARS website provides a list of various source codes and their corresponding tax implications. These source codes are said to be useful for classifying different types of income and deductions for tax purposes.

Pensioners with more than one earning tax: Pensioners with more than one source of income in South Africa are subject to specific tax regulations (Cameron & Fourie, 2023). The SARS combines the income from different sources at the end of the tax year to
determine the correct tax liability, often placing the taxpayer into a higher tax bracket. This may result in added potential tax due to SARS at the year-end.

**Analysis**

*R70 million return:* In year 2017, the Guptas received back R70 million, which therefore by law, was about 28% of their contribution. Mathematically, 78% is what the group should have contributed, amounting to about R180 million.

Though Young (2021) points at the non-existence of a definite policy on the employees with several sources of earning, he confirms the practice that SARS adds all the earnings and create a new tax bracket of the sum leads to it. This means that the tax deduction eats into the second and subsequent earnings.

In discontent, Cameron and Fourie (2023) explain that the multiple earnings of pensioners are treated for tax purpose in the same way as people who are still in employment.

**Discussions**

Sharife and Anderson (2019) explain that the case of the Guptas required to have paid R180 has no evidence, and also that there is no trace or evidence of the group contributing to the South Africa’s economy. However, they point at the evidence of money laundering involving R142 million going to the Guptas, and the Guptas acquiring a large portion of their fortune through inflated contracts with state-owned South African entities. This confirms the creativity mentioned, which is due to the loophole in lack of standardization of policies of practices in SARS.

In South Africa, multiple earners are taxed multiple times, which undermines entrepreneurship and initiatives of workers to increase their earnings (Henrekson & Stenkula, 2010). The second and subsequent earning is usually lower. To tax it, and sometimes with a higher tax bracket, may be more financially detrimental for these earners than their primary earning. This may be viewed as an inconsiderate approach by tax decision makers (Mankiw, 2013), who are not destitute and not requiring an additional job as they usually earn huge salaries. This is a case where the state officials can be viewed as being selfish in denying citizens to be rich (Duncan, 2024; Luzkow & Luzkow, 2018). Due to the current ruling party, the current government of South Africa is sourced predominantly by people from the villages (rural areas) and townships, who ought to have fought to aid black people in destitute conditions, and who are familiar with the black tax (Levy, Hirsch, Naidoo et al., 2021; Torkington, 2017). However, they design policies that seem to justify or support the inequality that they pretended to be fighting against (Marcatelli, 2017). If the case of second jobs are due to the employers avoiding to pay fulltime people, it is a legislation requirement but not to penalise the incumbent for a second earning. Instead, any employer found to be engaging in that practice should be the one facing penalties, and not the employee trying to make ends meet.

The case of pensioners is even worse, as these refer mostly to people who had been victims of apartheid (Brummer, 2010). Many pensioners from the elite need much more than their earning, and many may be ‘parenting’ grandchildren whose parents are dead or unemployed (Waterhouse & Bennett, 2023). To tax these pensioners is a shame. Then, to tax them on their second earning is a bigger embarrassment (Dilley, 2010; Monahan, 2017). Pension earning is not even equal to real earning because it is a proportion, but only a small percentage of real income.

The case of the South African government not paying attention to pensioners from former disadvantaged communities is an omission that is equivalent to disregarding employment equity and honest affirmative action (Leon, 2021).

**Conclusions**

The case of returned revenues to the taxpayers in the case of South Africa seems to be troubled with mediocre decision-making. An extremely huge amount returned to the people classified as Black, who were not formerly disadvantaged, who contributed nothing to deserve pay-outs, is a clear illustration that non-standardized tax return methods are deficient.

The taxing of second and subsequent incomes for employed people is a persistent practice that was initiated by apartheid to keep black people poor. The second income should be allowed to alleviate poverty as first incomes are usually not enough due to multiple uses to make up for historical gaps, as many such earners are in the formerly disadvantaged category.

The pensioner's income is currently meagre. It should be encouraged if the pensioner is able to earn another income for whatever reason. Pensioners should not be allowed to support corruption with funds provided by the government.

This paper recommends that:

i. SARS should determine an accurate monthly PAYE (Pay As You Earn) deduction tax rate for workers and pensioners with multiple income sources.

ii. Foreigners should not be allowed easy returns without thorough checks, and delays should be included in the process for rigorous monitoring and evaluation because once the foreigner leaves the country, it may be impossible to reclaim money lost by mistakes.
iii. The thorough checks should apply with locals as well, though not with delays since revenues can be recalled if mistakes occurred in paying out.

iv. Pensioners from previously disadvantaged communities should be taxed with caution. Those from elite backgrounds, with no extra burden of responsibilities, should be taxed minimally.

v. Other pensioners should not be taxed at all. The second earning should also not be taxed in case of the pensioners.

vi. For the employees, second earnings of those from formerly disadvantaged backgrounds should not be taxed on the second earnings.

vii. For the state to make tax collection fair, the attributed desirable from the key modern accounting techniques (activity-based method, balanced scorecard, continuous accounting, leveraging technology, non-financial performance measures, process management, real time inventory management, and value-based management) should be extracted and a new technique driven by technology and algorithms should be designed and applied.

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