

# TAXATION IN SOUTH AFRICA'S INFORMAL SECTOR

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## INTRODUCTION

Taxation is the method used by governments to gather funds from individuals and businesses to fund its administration and provide benefits to its citizens. In February of each year, the South African Minister of Finance presents the fiscal budget<sup>2</sup> to Parliament. The fiscal budget outlines proposed government expenditures and funding sources, primarily relying on various forms of taxation, with shortfalls addressed through borrowing and the creation of money. In South Africa, the South African Revenue Service is the reigning tax authority, established to streamline tax revenue collection and enforce adherence to tax legislation. The South African Revenue Service, under the Commissioner, is responsible for protecting the nation's taxable assets, identifying tax avoidance, and administering and collecting all taxes (Haupt & Haupt, 2023).

Figure 1 on the next page shows what taxes are currently covered by various tax Acts.

Depending on the nature of trading, all registered companies and income earning individuals will be liable for a combination of these taxes. The taxation net is however not limited to registered businesses and individuals. In South Africa and globally, there are non-registered individuals whose business practices are primarily based on selling small amounts of goods or services to an undefined market to earn a living (Williams, 2019; Kgatla, 2016).

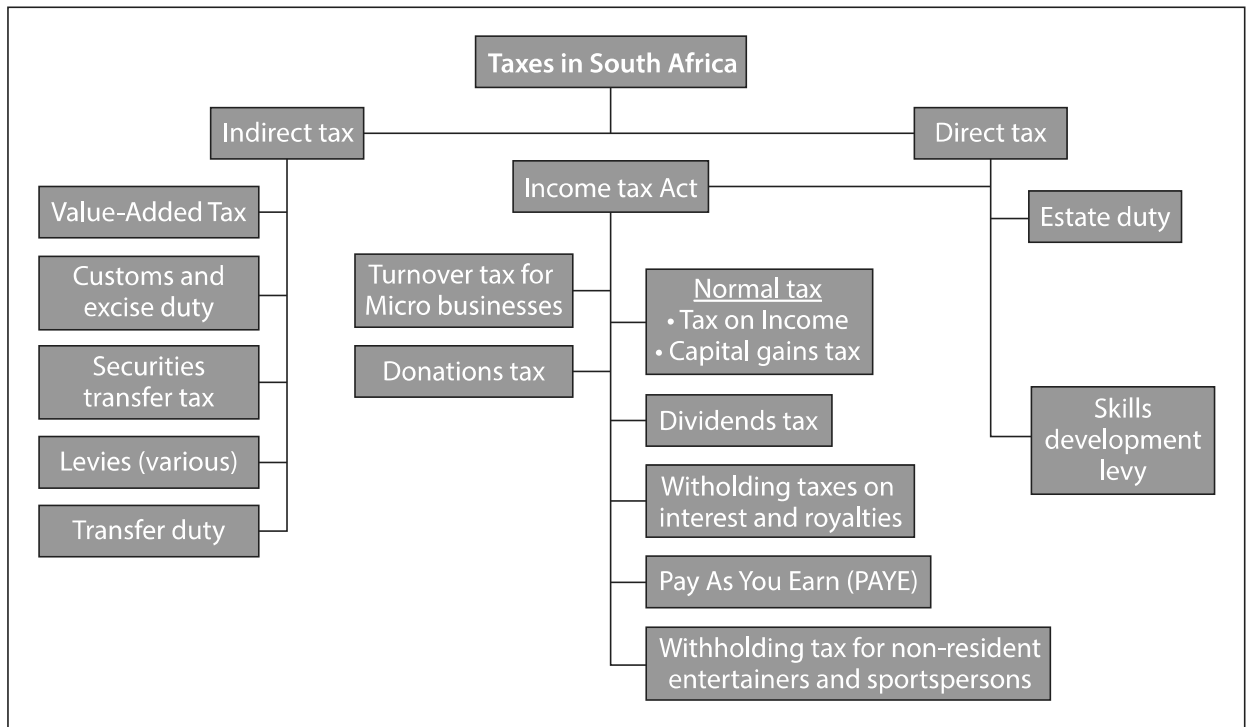
Globalisation has resulted in notable changes in the way countries interact, and economies operate. From an economic perspective, these significant changes are both beneficial and harmful. On a global scale, outsourcing, heightened competition from international markets, and automation, among other factors, has led to a decline in the availability of traditional jobs. In South Africa, job insecurity is rising across many organisations, driven by the implementation of advanced technologies and the increasing reliance on non-traditional employment models, such as casualisation and informal employment (Mpabanga et al., 2023; Vasyliiev et al., 2023). Informal businesses create opportunities

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<sup>2</sup> In South Africa, the fiscal year typically runs from April 1<sup>st</sup> to March 31<sup>st</sup> of the following year and covers the year to which the budget relates (Haupt & Haupt, 2023).

Figure 1: Overview of Taxes in South Africa



Source: Adapted from Haupt & Haupt (2023:3)

for earning an income and play a crucial role in the economic welfare of countries (Boitan & Stefoni, 2023). Informal business is a common and enduring occurrence and impacts economic growth, improvement and development, directly affecting citizens. However, this growth can sometimes conflict with aspects of the sustainable development goals, as it may result in challenges such as non-compliance with both tax and employment legislation and limited access to social protection services (Deléchat & Medina, 2021).

Despite these challenges, the informal sector has become a vital avenue through which many individuals earn a living. With the formal sector unable to absorb the increasing workforce due to capacity constraints, individuals often take matters into their own hands, creating their own jobs instead of waiting for government-led job creation strategies (Kgatla, 2016; Boitan & Stefoni, 2023). The informal sector consists of employees and businesses that operate without formal registration, consequently evading a host of regulatory requirements (Durokifa, 2024; Davidescu et al., 2024). Unregistered businesses often operate outside the legal frameworks, making it challenging for government authorities to identify these instances of non-compliance. In other words, businesses and workers in the informal economy are often excluded from the legal and institutional structures that support the formal sector, which can limit their productivity and growth. Employment within the informal sector is typically characterised by unstable working conditions and remuneration that is below the prescribed basic wages. In many developing countries, there is a significant number of labourers that are, in one way or