



## The Benefit Theory of Taxation and Its Implications on the South African Indigent Households

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### **Abstract**

Public finance and taxes handle the concept of the benefits principle. This is done by levying public goods taxes based on willingness to pay. This makes the cost of these advantages equal. This idea is often related to the pricing of personal items. According to Plata and Pascual (2022), Escarraz in 1967, Knut Wicksell in 1896, and Erik Lindahl in 1919 invented the benefits technique to evaluate fiscal policies and taxation. Paul Samuelson, Richard Musgrave, and others refined this method. It has also been used for tax progressiveness, corporate taxes, and property/wealth taxation. This paper examines how the benefit theory may help impoverished South Africans pay for government services in a democratic environment. This research claims South Africa struggles to pay for state-provided services. South Africa's democratic transformation is related to the issue of service expectations against the benefits that emanate from that. The benefit theory of taxes and its principles underpin the text theoretically and epistemologically. However, a literature survey provides its premise, argument, crux, purpose, results, and conclusions. Thus, the article gathers multiple academics' views on the benefit principle technique from connected papers, journals, and books. The research states that poor individuals cannot afford government services. However, governmental services are not really for those who can pay. The study also states that the government is experiencing several public protests owing to poor service delivery. Since most of the country is underprivileged and rural, this research suggests that the benefit theory will only apply to a limited number of people.

**Keywords:** *Benefit Principle; Indigent; Taxation; Households*

### **Introduction**

Municipalities primarily rely on money from the national government to properly carry out their responsibilities (Konlan, 2015). The funds obtained from the national government come in the form of equitable shares, conditional and/or unconditional grants, for example, grants for municipal infrastructure,

and their sources of income collected or produced from the public (National Treasury, 2020; Sayed, Motala, Carel & Ahmed, 2020). Funding from the national government is the primary source of support that the municipalities need to carry out their responsibilities (Konlan, 2015) properly. Because this particular municipality could not earn its own money, it was amalgamated with another municipality (Creswell, 2013). Some municipalities combined their services in 2016 due to low-income generation. According to Veldsman (2002), the emergence of municipalities has resulted in strikes and caused significant damage to public infrastructure. Therefore, the municipality should be able to create its sources of money, which should be collected from the ratepayers of the municipality. For the municipality's residents to be able to pay for the services that the local government gives, they need to have money and to have jobs; they need to have jobs. The inability of the ratepayers to maintain employment is the root cause of their failure to pay their taxes and rates.

Today's benevolent municipalities contribute to the public needs of the underprivileged by providing free services and housing to improve these citizens' overall quality of life and to alleviate some of the sufferings they experience (Smoke & Bahl, 2003; Dirie, 2005). According to Rodrik (2000:64), the local governments must ensure the effective collection of money that is owed to them to be in a position to improve the standard of living of the less fortunate members of their communities. Wicksell (1896) and (1919), Stockholm School economists, presented the benefit theory (Plata & Pascual, 2022). This method suggests state tax advantages (Bala, Enoch, & Yakubu, 2021). This means that the more a person gains from government action, the more he should pay (Minh Ha, Tan Minh, & Binh, 2022). Based on the benefits of public service, this method aims to minimise each person's tax burden (Ojong, Anthony, & Arikpo, 2016). The theory assumes a government-taxpayer transaction (Ahlborg, Boräng, & Grimes, 2023). ratepayers get social amenities in return for taxes (Minh Ha, *et al.*, 2022). Benefit theory may influence revenue collection on socio-economic growth. This idea may influence taxation strategies to collect income for socially beneficial programmes and services like infrastructure development (Minh Ha, *et al.*, 2022). This improves the neighbourhood's quality of life, access to opportunities, and economic development (Barker, 2006; Minh Ha, *et al.*, 2022). This study investigates the implication of applying the benefit theory to indigents within a municipality.

## ***Theoretical Underpinning***

### **The Benefit Principle**

The benefit principle is a notion that may be found in both the philosophy of taxes and the theory of public finance. Two Swedish economists: Johan Gustaf Knut Wicksell (1851 –1926) and Erik Lindahl, created the benefits method (Plata & Pascual, 2022). These two Swedish economists initially devised its usage for analysing the efficacy of taxation and appraising fiscal policy (1891 –1960) (Plata & Pascual, 2022). According to this theory, the amount of money collected via taxes to cover the cost of providing public goods should be proportional to the level of political readiness to do so (Dodge, 2005). According to this principle, a person's taxes should be proportional to the benefit they get from the state (Dodge, 2005; Bala, Enoch, & Yakubu, 2021). When someone receives more advantages as a result of the actions of the state, then that individual ought to contribute a greater amount to the government. As a result, the benefit-received theory of taxes says that individuals and companies should acquire the products and services of the government in fundamentally the same way other commodities are purchased (Dodge, 2005; Bala, Enoch, & Yakubu, 2021). Road user fees are a good illustration of this. Those who enjoy the privilege of driving on public roads are the ones who are responsible for paying the taxes that fund their upkeep and development. The following are the primary reasons or applications of the benefit principle of taxation: the theory acknowledges that the objective of taxation is to pay for government services and that individuals should pay taxes in proportion to the advantages they get from expenditures done by the government (Dodge, 2005; Minh Ha, *et al.*, 2022; Bala, Enoch, & Yakubu, 2021). According to the benefit principle, taxes are seen as performing a role analogous to pricing in private transactions (Plata &

Pascual, 2022). It is possible that this would result in an economically efficient solution since the distribution of resources via the public sector will directly react to the desires of consumers (Plata & Pascual, 2022). In the case of some specialised taxes, such as the tax on fuel or the betterment tax, it also accounts for the advantages people gain from paying such taxes (Plata & Pascual, 2022). This fundamental idea has also been the target of a great deal of serious criticism because the fundamental tenet of the tax is that it is an obligatory payment, and there is no direct exchange of services for monetary value (Plata & Pascual, 2022). Consequently, if the state maintains a particular relationship between the advantages dispensed and the benefits obtained, this notion violates the fundamental premise of taxation since it goes against the logic behind it.

### ***Literature Review***

The following discussion will discuss the empirical literature on the benefit theory of taxation.

### **Benefit Theory of Taxation in Practice**

If the theory outlined above can be implemented, those with lower incomes will be responsible for paying higher tax rates. This is because they get a greater advantage from the state's services. It is against the notion of fairness to increase the amount of money collected from lower-income people via taxation (Plata & Pascual, 2022). Even though it is fascinating to analyse, the Benefit Principle rarely fails when free riders use pure public assets like street lights for which the benefit obtained cannot be quantified (Dodge, 2005; Bala, Enoch, & Yakubu, 2021). As a result of the constraints discussed above, it is abundantly evident that the benefit principle cannot be implemented in practice. Most people will enjoy the advantages of public spending but will be hesitant to pay their share of the tax burden (Plata & Pascual, 2022).

According to the benefit theory of taxation, individuals or organisations that directly profit from the provision of public goods and services should be compelled to pay a monetary commitment to support those benefits for the government to continue providing those advantages (Dodge, 2005; Bala, Enoch, & Yakubu, 2021). This monetary commitment should be made to support those benefits by the government (Plata & Pascual, 2022). One discovers much important information when researching how the benefit theory has impacted low-income families in South Africa.

Based on the ability to make payments in the majority of South Africans is minimal (Chauke & Sebola, 2019). For citizens to contribute, as envisaged by the ability to pay theory, they need to be employed to earn income to make such payments (Chauke & Sebola, 2019). According to the findings of the research of Bahl and Smoke (2003), municipalities have a responsibility to provide an environment that is conducive to the production of new employment and, when necessary, to facilitate and contribute to the production of new jobs via cooperative efforts with the public and private sectors in local economic growth. However, Boadway (2007:54) is of the opinion that for municipalities to increase their economic base, the municipalities themselves need to ensure that employment opportunities are made accessible to all of the people who live in such municipalities.

Low-income families in South Africa often contend with significant financial constraints and debts, making it difficult to fulfil their fundamental commitments (Bird, 2015; Chitimira & Ncube, 2020). The imposition of high taxes or fees based on the benefit theory may place an additional burden on these families, making it more difficult for them to access essential services and making it more difficult for them to receive necessary services (Dodge, 2005; Chauke & Sebola, 2019; Plata & Pascual, 2022). The benefit theory is based on the idea that individuals should be compensated for their benefits (Plata & Pascual, 2022).

To create a balance conducive to good health, the benefit theory has to be supplemented by guiding principles of equality and social justice (Bala, Enoch, & Yakubu, 2021). It is of the utmost necessity to consider both the historical inequities that have been perpetrated and the economic disparities that presently exist in South Africa. Taking this into account is of the utmost importance. The financial burden of taxes must be spread to consider the social and economic issues encountered by families with lower incomes (Bala, Enoch, & Yakubu, 2021). This is because the financial burden of taxes must be dispersed. This will ensure that these families are not required to confront a cost that is disproportionate to their ability to pay, and it will safeguard them from facing financial hardship as a consequence of this situation (Bala, Enoch, & Yakubu, 2021).

To facilitate the acquisition of access to basic services for families living on a low income, municipalities in South Africa have instituted indigent assistance programmes (Festinger, 2010). These programmes attempt to give low-income families financial support or exemptions from certain requirements in some way (Catherine & Farvacque-Vitkovic, 2014). When this is done, the objective is to guarantee that low-income families have access to basic services without being exposed to needless financial limitations due to their lack of funds ((Catherine & Farvacque-Vitkovic, 2014). This may be accomplished by ensuring low-income households access important services (Babbie, 2010). Using the benefit theory in low-income families and households poses a possible danger of harm, which may be reduced if these activities are implemented (Chauke & Sebola, 2019; Bala, Enoch, & Yakubu, 2021).

In South Africa, the taxation system and the funding of public services are both impacted by cross-subsidisation in various ways. This is because South Africa is a multi-party parliamentary democracy. The greater tax payments made by individuals and businesses with higher earnings help to subsidise the provision of services to families with lower incomes (Bala, Enoch, & Yakubu, 2021). This approach aims to ensure that all members of society will have access to the required assistance while also establishing a just and equitable allocation of the tax burden.

The monetary aid provided by the government local government in South Africa gets financial assistance from the national government in the form of subsidies, enabling them to maintain their support for the provision of services to families with lower incomes. These subsidies help to make up for the money lost due to reduced tax payments made by families with lower incomes. As a direct result, they make it feasible for essential services to be provided to those with the largest need for them.

The following are examples of programmes that aim to eliminate poverty and promote development: In addition to collecting taxes, the South African government carries out various anti-poverty and development efforts. These programmes aim to improve the economic and social conditions of low-income households (Babbie, 2010). These activities aim to alleviate the root causes of poverty, reduce dependency on public resources, and open doors to opportunities for livelihoods that are more environmentally friendly.

The benefit theory of taxation must be considered concerning the specific social, economic, and historical backdrop of low-income families in South Africa (Chauke, 2016). This is because low-income families have been in South Africa for a long time. It is essential to locate a happy medium between recouping the expenses of providing public services and ensuring the delivery of basic services while at the same time taking into consideration the limited financial resources of families with low incomes and striving to achieve social fairness and justice (Bala, Enoch, & Yakubu, 2021). The discipline of taxes uses a notion known as the benefit principle rather often. This argument proposes that those who gain more from government spending or expenditures should pay a higher percentage of their income in taxes than those who do not benefit from these activities (Chauke, 2016). This term explains the things the government should spend money on and the types of people who should be accountable for paying for those things (Bala, Enoch, & Yakubu, 2021). So, it is logical to expect individuals who are direct consumers of services that the government directly gives to pay a greater proportion of their income in

taxes than others (Barchell & Listokin, 2012). As a result of the fact that the benefit principle and the prices paid in private transactions attempt to achieve equivalent aims, the two concepts are often compared with one another (Bala, Enoch, & Yakubu, 2021). If this concept were implemented, it would imply that the resources allocated for public projects would be determined by the consumers' response regarding the taxes they paid (Barchell & Listokin, 2012). This would mean that consumers' taxes would determine the resources earmarked for public projects (Barchell & Listokin, 2012).

People of a specific country do not think it essential to make monetary contributions towards the cost of public services or projects supported by the state because they believe the state should shoulder that responsibility (Bala, Enoch, & Yakubu, 2021). People lack the motivation or the natural inclination to pay for these services, even though providing social amenities is precisely what citizens should enjoy (Bala, Enoch, & Yakubu, 2021). Even though residents ought to benefit from the provision of social amenities, this happens (Bala, Enoch, & Yakubu, 2021). If the government of a country were to demand that its residents pay higher taxes for the public services they use, then some residents of that country would prefer not to have access to those services rather than pay the higher taxes (Bala, Enoch, & Yakubu, 2021). This is because some residents of that country are unwilling to pay higher taxes (Bala, Enoch, & Yakubu, 2021). Given these many factors, applying the benefit principle in the real world will be challenging (Chauke, 2016). On the other hand, the benefit principle is broken when drivers and passengers must pay toll fees or highway levies. This is a violation of both the benefit principle and the equal protection principle.

Economists believe that one of the most important factors that play a role in deciding how successful a particular tax system is is the kind of market economy that is in operation at any given time (Chauke, 2016). It is the responsibility of the market, or the factors that affect the market, to make economic decisions about production, consumption, and the distribution of resources; the tax system should not interfere with these decisions in any manner (Chauke, 2016). So, the general view among economists is that taxes should not interfere with the means of production, the expenditures that are involved with the show, or the spending that consumers do (Khagram, 2013; Minh Ha, *et al.*, 2022). This is due to the involvement of taxes, which skews both the decision-making and the processes engaged in economic activity. This is a consequence of the interference of taxes. When there is unnecessary interference from the tax system, it may also increase the weight imposed on the economy (Minh Ha, *et al.*, 2022). This may have a negative impact on economic growth (Minh Ha, *et al.*, 2022).

The supervision of both the administration of the tax industry and compliance with tax laws is necessary to be carried out by an accountable and trustworthy authority (Bala, Enoch, & Yakubu, 2021). As a direct consequence of this change, the ease with which tax systems may be administered and the degree to which they are followed will increase. Countries that are still developing or emerging need to seriously consider developing tax administration techniques that are both effective and efficient, as this will improve both good administration and compliance in the nation (Bala, Enoch, & Yakubu, 2021). Before-tax laws may be implemented effectively and efficiently, and often four fundamental qualities must be satisfied (Bala, Enoch, & Yakubu, 2021). These characteristics are effectiveness concerning expenditures, keeping calm and acting normally, effortless ease and clarity primary benefits (Khagram, 2013).

All tax rules and regulations must always be crystal clear, without any room for interpretation, and simple enough for taxpayers to grasp to keep tax law administration open and accessible to the public. Instead, these rules and regulations need to be worded in a manner that is easy to understand and straightforward for taxpayers (Chauke, 2016). The rules and regulations should be clear to taxpayers and the tax administrators tasked with upholding them and ensuring they are followed (Chauke, 2016). Ambiguity may lead to the taxpayer and the tax administrator making mistakes, which is bad for the economy and should be avoided wherever practicable (Minh Ha, *et al.*, 2022). Clarity will reduce the number of errors and instances of tyranny perpetrated by tax administrators, many of whom are confused



about the laws that regulate the tax system (Minh Ha, *et al.*, 2022). This will result in a reduction in the overall number of mistakes. Regrettably, the laws governing taxes in many countries are complex and difficult for the average citizen to understand. Those who are physically or mentally unable and those who live in poor or uneducated communities are more likely to be the targets of discrimination. As a direct consequence of this, the law is ignored. It is important to avoid making significant changes to the law too often if we want the tax code to remain consistent. They can be modified, but only in very unusual circumstances and ways that would not throw off or distort the tax system in any manner. Rather, they can only be changed in ways that will; if there is any need for adjustments to tax laws and regulations, then such alterations must be done within the context of comprehensive tax reform. When unexpected and unjustifiable changes are made to tax regulations, taxpayers and tax administrators can become lost in the flow (Minh Ha, *et al.*, 2022). This, in turn, will have the impact of having a reduced degree of compliance with tax regulations among the population as a whole.

Consequently, if there is a need to make changes to the tax regulations, each country is obligated to make provisions for a transition period that is both coordinated and fair. Ensuring taxes are collected effectively and economically falls on the systems that administer them (Minh Ha, *et al.*, 2022). Developing and developing countries recognise the need for a taxation system that is both effective and cost-efficient concerning revenue collection (Minh Ha, *et al.*, 2022). It is necessary to ensure that the costs associated with the control, collection, and assessment of taxes are effective, and they must also follow the taxation goal (Minh Ha, *et al.*, 2022). The expenses of operating the government must be managed effectively, and the costs of paying taxes for taxpayers must also be kept to a minimum while at the same time ensuring that taxes have the least inefficient financial impact feasible (Minh Ha, *et al.*, 2022). It is unacceptable to levy excessively high tax rates on taxpayers, whether they work for the government or are just average citizens living their lives.

### **The Impact of the Benefit Theory of Taxation on the Indigent Household**

According to the Benefit Theory of Taxation, it is reasonable to expect every individual to be responsible for paying taxes in an amount proportional to the benefits they get from the services provided by the government (Bala, Enoch, & Yakubu, 2021). There is a possibility that the value of these benefits is proportional to the value of the services offered by the government. These benefits may be divided into two distinct groups, direct and indirect (Bala, Enoch, & Yakubu, 2021). One school of thinking proposes that the amount of money collected via taxes should be made on an escalating scale to keep up with inflation. It is a given that the state will provide its inhabitants with certain conveniences; consequently, these civilians are compelled to make a monetary contribution to the cost or value of these conveniences in proportion to the benefits they obtain from employing them (Bala, Enoch, & Yakubu, 2021). This concept is based on the basic notion that a person should be obliged to pay higher taxes directly to the advantages an individual gets from the government (Minh Ha, *et al.*, 2022). According to the benefit theory of taxation, it is reasonable to anticipate that individuals will contribute to the functioning of government through monetary contributions in the form of taxes (Bala, Enoch, & Yakubu, 2021). This donation may come in the form of cash assistance. When it comes to some specialist taxes, such as the tax on fuel or the betterment tax, this considers, as was said earlier, the benefits individuals obtain as a consequence of gaining such advantages due to paying such taxes (Bala, Enoch, & Yakubu, 2021).

### **Methodology**

This evaluation and analysis of the thought process around the benefit theory of taxation and its impact on indigent households to be acknowledged as an independent notion that impacts society is carried out with the help of the relevant literature. This information is used in the research. The argument, the aim, and the structure of the paper are all intertwined with and prompted by the benefit theory and how it relates to society in South Africa, which is an example of the lack of transparency. The study uses

a methodology founded on the body of written material that is already available to assemble and evaluate data about the openness and efficacy of the governments in South Africa. The paper performs a theoretical and conceptual evaluation of secondary data to a significant degree, using these analyses as the foundation for the publication's overall approach and framework. The article investigated the points of view of a wide variety of academics to provide support for the study's aim, premise, and primary argument.

## ***Findings and Recommendations***

The idea is that taxes should be seen as payments for services the state provides to taxpayers and should thus be proportioned to reflect this relationship. The notion that a person should pay tax in proportion to advantages bestowed by the state on that individual is highly unreasonable because the benefits received cannot be accurately assessed in terms of money. This makes the idea that a person should pay tax in proportion to advantages bestowed on that individual by the state highly unreasonable. No objective scientific approach can be used to determine how substantial an advantage is or how much it is worth, thus leaving the word's meaning to benefit up to complete and total human interpretation. If the quantity of benefits a person receives is used as the basis for taxation, then the poor will be obliged to pay more taxes than the middle class and the wealthy. This is because, under a welfare state, those with lower incomes would get a disproportionately higher share of the benefits accruing from the money spent by the government than those with higher incomes. This is an unjust remark; consequently, it cannot be tolerated. According to this point of view, not only is it very challenging, but it is also very difficult to determine which individuals are entitled to what proportion of the total benefits. There is no reason for assigning a monetary value to the state's services since having a government is essential for living a civilised life. Because of this, it is impossible to quantify the worth of these services. The vast majority of the services provided by the state are inseparable, and the people who receive these services are not singled out in any particular way. Disentangling the benefits of having a robust national defence from the other benefits is impossible. Some benefits are restricted to certain categories of individuals and may only be accessed by a specific number. If this idea is implemented, the state must repay the full benefit through taxes. The above explanation makes it clear that the benefit principle is incapable of guaranteeing justice in the distribution of the burden of taxes among the many different subgroups that make up society.

## ***Conclusion***

In conclusion, it is possible to state that the benefit principle is a concept debated in the field of public finance and the concept of taxes. This is because the benefit principle was developed in the context of public benefits. This is accomplished by basing the amount of taxes collected to pay for expenditures on public goods on a publicly announced willingness to pay for such benefits. This permits a fair sharing of the financial burden of providing these advantages to all parties. When people talk about this idea, they often connect it to the function that prices fulfil in distributing specific goods on the market. This research studied the usefulness of the benefit theory in the advent of a democratic regime in South Africa to tackle the challenges faced by the impoverished who cannot pay for the services provided by the government. Therefore, in conclusion, it is possible to argue that South Africa is having trouble paying for the assistance given by the state. Similarly, discussing the impasse between people's expectations of the services they would get and the benefits they would receive is pertinent to the ongoing political change in South Africa. Because of this, the material gathered from various academics' points of view on the benefit principle technique from connected papers, journals, and books made it clear that poor individuals often cannot pay for government services because they do not have sufficient financial resources.

On the other hand, those who can pay for services provided by the state do not benefit from these services. However, it was also observed that, despite the inability to pay for the services, the

administration faces numerous public protests due to a lack of service delivery. This was a contradiction to what was previously said. Because the majority of the population in the country is poor and lives in rural regions, it is possible to conclude that the benefit theory will only apply to a limited number of people if any conclusions are to be drawn from this study.

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