

## **TAX DEFAULTERS: WHAT DRIVES THEM? By Jonathan Hore**

Tiro is a managing director of his booming business and he has so far been very successful. He recently spoilt himself with a new Mercedes Benz. Yes, he deserves it! This fella works an average of 12 hours a day! Tiro's wife is very proud of him. She is now the talk of town and the envy of all her peers. But as Tiro's business grows, a few worrisome issues start creeping in. First, he has been too busy and they failed to submit the company tax return that was due on 31 January 2018. He has also realised that most of his clients delay paying what is due to him. As a result, he also failed to submit the VAT return that was due on 25 January 2018. Well, so what's next? Tiro also missed his last PAYE payment that was due on 15 February 2018. Tiro knows that he is a genuine businessman who values voluntary tax compliance but his friend, Sam, is a mafia-style businessmen. He dodges the taxman left right and centre. These two are aware that they are tax defaulters but they certainly are different. Keep on reading and I will show you how taxpayers default in paying tax. In this article, words importing the masculine shall be deemed to include the feminine.

### **WHAT IS A TAX DEFAULTER?**

A tax defaulter is any person or company which fails to perform one or more of its tax obligations, whether due to genuine or manufactured reasons. Technically, almost all taxpayers are tax defaulters! Yes, if you skipped a payment because your clients hadn't paid you, it means that you are a tax defaulter. Technically, tax defaults are an integral part of the tax compliance system but then there is a difference between intentional defaulters and those who get constrained by circumstances. Those who get constrained know their obligations and once their circumstances improve, they make things right with the taxman. Tiro is the typical tax defaulter who fits into this category.

He does not default intentionally as he knows that this puts his tax standing with BURS in a bad position. His conscience beats him down whenever he is constrained from performing his tax obligations.

But hold on. There are those tax defaulters who fall into Sam's category. These tax defaulters plan to default and they only comply because they do not have an option; probably their accountant or external auditors always raises issues about this issue. By themselves, they will not bother performing their obligations mainly because they naturally have a phobia for tax. They don't like to see the taxman, not at all. But one thing you should realise is that both Sam and Tiro are tax defaulters!

### **WHAT DRIVES TAX DEFAULTERS?**

There are a number of reasons why taxpayers default in complying with their tax obligations, the most common of which are listed below:

- Financial distress – Businesses may experience temporary or permanent financial droughts and that certainly affects their ability to comply with their tax obligations. Those that experience temporary financial droughts are likely to comply immediately as their drought is over. On the other hand, those who experience perennial financial droughts may take time to correct their tax obligations. This may result in huge and unbearable tax interest burdens
- Extenuating circumstances – Some taxpayers fail to comply with taxes due to genuine extenuating circumstances such as delays in finalization of an external audit. This group is usually compliant but here and there, circumstances force them to default.
- Mafia taxpayers – This group of taxpayers just don't want to pay tax. They come up with all forms of illegal gimmicks to evade tax and they don't blink. They are the type that is ready to go to jail. Threaten them, bring the police etc, they won't just budge.

In fact I should not be referring to these as tax defaulters. These are tax dodgers. Whether or not circumstances favour them, they just default. Its in their blood.

- Lack of knowledge – A number of taxpayers know the basics about tax matters but the deeper technical aspects are known by a tax specialist. For example, a big entity may have been audited by external auditors but when a tax specialist checks their systems, they discover things that an ordinary accountant won't detect. There is a knowledge gap between a tax specialisit and an accountant who does not specialize in taxes. This is the reason why Tax health checks are important.

### **THE CONCLUSION**

Tax defaults are not good for the tax defaulter as they invite heavy tax penalties and interest. Defaulting also affects BURS collections, which may result in the defaulter denying the public the next hospital or police station that may have been built had they paid their taxes. In all cases, taxpayers should strive to voluntarily comply with their obligations and minimise or eliminate tax defaults. Companies are also advised to a have a Tax-health check once n a 3-4 year period to ensure that hidden tax exposures are uprooted.

Well folks, I hope that was insightful. As Yours Truly says goodbye, remember to pay to Caesar what belongs to him.