Optimising taxation strategies for South Africa's minibus taxi industry

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South Africa's minibus taxi industry has long courted controversy, most recently in Cape Town where a taxi strike in August 2023 erupted into violence. That said, it's a highly successful black-owned sector that plays a pivotal role in commuter transport. JANE NDLOVU argues that it could make a constructive contribution to transformation, particularly in the lives of its customers, if it was subject to a taxation regime. She looks at a successful model in Tanzania to see if it could be applied in South Africa.

The South African minibus taxi industry has been a remarkable success story, starting as a niche service in the late 1970s to meet the needs of an emerging urban African workforce, and growing into a critical component of South Africa's public transportation system (Fobosi, 2013; Fourie, 2005). Despite its troubled past as a piracy industry during the apartheid regime, the South African minibus taxi industry has emerged as one of the most successful black-owned enterprises in the country (Molobela, 2021). According to records from the South African National Taxi Council (Santaco), there are more than 200,000 minibus taxis operating in the country (Vegter, 2020).

Statistics published by Statistics South Africa (SSA) indicate these minibus taxis have become the backbone of South Africa's public transportation sector. In 2020, the SSA published a report titled *National Households Travel Survey 2020 Statistical Release P0320* which revealed that minibus taxis account for a staggering 80.2% of the 4.7 million daily public transportation trips made in the country (Statistics South Africa, 2020). This showed an increase from the same survey conducted in 2013 which found that taxis accounted for 67.6% of the 5.4 million daily public transportation trips (Statistics South Africa, 2020; Vegter, 2020).

The 2022 *National Household Travel Survey Gauteng Transport Profile* published by SSA revealed that minibus taxis continued to be the most frequently used mode of transport across all geographic locales. Over 3.8 million (83.3%) Gauteng residents relied on minibus taxis to reach their destinations (Statistics South Africa, 2022a). In KwaZulu-Natal (KZN) minibus taxis were the transportation of choice for 1.8 million individuals (62.3%) (Statistics South Africa, 2022b). A commanding 77.1% of Western Cape households utilised minibus taxis, outpacing the use of buses and trains, which accounted for 16.3% and 6.5% of households respectively (Statistics South Africa, 2022c). Similar results can be seen in the provincial profiles of all provinces in South Africa, which are publicly available on SSA's website.

Yet, behind the industry's success lies a dark reality of economic inequality and violence, leading researchers to describe the minibus taxi industry as a "precariat society" (Bähre, 2014). According to the Oxford Dictionary, a "precariat society" refers to a social class composed of people experiencing precarious employment that lacks predictability, job security and benefits typically associated with full-time employment. For example, taxi owners, taxi drivers and taxi marshals do not sign a contract and do not receive a payslip (Fobosi, 2021). The lack of these affects their ability to obtain financing from banks or to purchase household goods and furniture on credit (Fobosi, 2021).

Apart from unfavourable employment conditions, South Africa's minibus taxi industry has long been plagued by numerous challenges. These include safety concerns, poor service quality and a lack of accountability (Bähre, 2014; Fobosi, 2021). The photographs below illustrate the deplorable condition of some of South Africa's minibus taxis. Despite these conditions, cash-strapped commuters, who are also facing rising food and electricity costs, are forced to pay more for transportation (Khumalo & Lamola, 2022).

Approximately 8% of South Africans view taxi fares as expensive and opt instead to walk to their workplace or educational institution (Statistics South Africa, 2022a), as they cannot afford the cost of a one-way trip, which could range from R23 to R35 (Khumalo & Lamola, 2022). This may amount to R920 to R1,400 for travel during 20 business days in a single month and is nearly double South Africa's food poverty line, which as of December 2022 was calculated by the Pietermaritzburg Economic Justice & Dignity Group's (PMBEJD's) Household Affordability Index to be R663 (*BusinessTech*, 2023). The PMBEJD, which calculates the household food basket of low-income families living in Johannesburg, Cape Town, Durban, Springbok and Pietermaritzburg, estimates that roughly 13.8 million people in South Africa live below the food poverty line of R663 per month (*BusinessTech*, 2023).

The above statistics underscore the severity of the issue, as many individuals are forced to choose between using substandard transportation and meeting their basic nutritional needs. The dire condition of South Africa's minibus taxis is a major concern for commuters, particularly those struggling to make ends meet, and the high cost of transportation is a significant burden, which exacerbates poverty and contributes to the perpetuation of inequality.

Furthermore, SSA reports that in Gauteng there is a significant level of dissatisfaction among households regarding taxi services (Statistics South Africa, 2022a). The primary concerns in the province were the conditions at taxi ranks (63.3%), the behaviour of taxi drivers towards passengers (47.7%) and the perceived lack of safety due to accidents (47.3%). Notably, the cost of taxi fares (39.8%) and the perceived security risk during commutes to and from the taxi rank (37.6%) also fed into this prevalent discontent among Gauteng residents.

Similarly, SSA reported that in KZN a substantial number of households expressed dissatisfaction with the facilities at taxi ranks (61%) and the cost of taxi fares (58.1%) (Statistics South Africa, 2022b). In the Western Cape, SSA reported a high level of dissatisfaction and significant grievances including the excessive crowding inside minibus taxis (40.2%), security concerns while walking to and from taxi ranks (35%) and driver behaviour towards passengers (30.8%)

(Statistics South Africa, 2022c).

These issues were major contributors to the widespread dissatisfaction among households concerning minibus taxi services.

Formalisation of the industry

Formalisation of the industry has been suggested as a potential solution to some of these problems. Later this article explores the potential of the Block Management System (BMS) tax collection programme that has been successfully implemented in Tanzania to effectively formalise the industry and improve tax revenue collection in that country, and considers its relevance to South Africa.

According to Fourie (2005), formalisation involves transforming an informal business into a regulated industry. In the case of the minibus taxi industry, formalisation would mean subjecting the industry to government regulations, including the payment of tax. The South African minibus taxi industry's recent contribution to tax revenue is concerning, as it amounted to only R5 million on earnings of R90 billion (National Treasury, 2021).

Formalisation could allow for subsidisation of the industry by the government, which richly subsidises other forms of public transport like buses and trains. State subsidies for taxis could alleviate the cost burden and trickle-down economic effects of fuel prices on commuters.

Ndlovu and Mohale (2022) propose that South Africa should contemplate implementing a tax system tailored specifically to the distinctive characteristics of the minibus taxi industry. They suggest utilising metrics such as the seating capacity or distance covered in lieu of more conventional tax determinants such as taxable income calculated as per the Income Tax Act.

They further argue that a standardised tax structure for small, medium and micro-enterprises (SMMEs) may not adequately address the unique aspects of this industry, implying the need for a more specialised and adaptive approach to taxing the minibus taxi industry.

Ndlovu and Mohale (2022) further contend that taxing the minibus taxi industry could create an opportunity for the South African government to assist commuters by implementing user- based subsidies.

Formalising the minibus taxi industry could make it more accountable and contribute to increasing tax revenue collection, which may increase government funds available for wealth redistribution. Moreover, government regulation and the possible introduction of minibus taxi subsidies for commuters could increase customer satisfaction. However, as Vegter (2020) points out, many taxi operators resist formalisation because they want to avoid paying taxes. They feel that the significant "bribes" they pay to traffic officials on the roadside to avoid impounding is already a form of tax (Bähre, 2014). The resistance to formalisation poses a significant challenge to the implementation of necessary regulations and the transformation of the industry into a more professional and regulated sector.

Prior (failed) attempts to tax the taxi industry include the Net1 Applied

Technology smart card, OmniPay's Electronic Management System, the Taxi Recapitalisation Programme (TRP) and the Integrated Rapid Public Transport Network (IRPTN) programme. These are discussed below.

Prior attempts to formalise the minibus taxi industry

During the late 1990s, South Africa tried to introduce smart cards to be used by minibus taxi operators to collect fares (Aruho *et al.,* 2021; Vegter, 2020). The aim of the implementation of the smart cards was to keep accurate records, by way of bank statements, of minibus taxi revenues so that the South African Revenue Service (SARS) could effectively tax the industry (Aruho *et al.,* 2021; Vegter, 2020). The smart cards were rolled out in parts of Pretoria (Tshwane) during August 1999 and the system was implemented by Net1 Applied Technology (Aplitec) at a cost of R13 million and facilitated by the South African Local and Long-Distance Taxi Association (SALLDTA) (Vegter, 2020). However, violence between SALLDTA and the Federated Long Distance Taxi Association (FELDTA) resulted in the deaths of 15 people (Vegter, 2020). A major reason for opposition to the card system raised by minibus taxi drivers was that they no longer had petty cash on hand to purchase lunch and pay for other daytime operating expenses (Gifford, 1999). Owing to the ensuing violence, the card system was abolished by the South African government in October 1999 (Vegter, 2020). The programme lasted for only three months.

In 2005, Santaco unsuccessfully attempted to implement a similar system, referred to as OmniPay's Electronic Management System, which would also allow passengers to access medical and funeral insurance (Vegter, 2020). Another stillborn project during 2005 was the attempt by Prism Holdings to partner with Taxifone to develop a payphone that incorporated the cashless smart card technology (Vegter, 2020). From 2007 to 2010 there were other attempts to launch integrated cashless ticketing systems, but these projects never materialised (Du Toit, 2007; Vegter, 2020).

Another formalisation attempt was the strategy devised by the government to recapitalise and restructure the industry by introducing the TRP in 1999 followed by the Revised TRP in 2019 (Fobosi, 2013; Vegter, 2020). Under the Revised TRP, the government would pay taxi operators between R45,000 and R91,900 to replace the between 100,000 and 135,894 older, unsafe Toyota Siyaya taxis. This "scrapping allowance" would be used as a deposit for the purchase of new minibus taxis such as the Toyota Quantum (Bähre, 2014). Most minibus taxi operators were left with a cash shortfall of up to R200,000 due to the high cost of the Toyota Quantum compared to the Toyota Siyaya (Bähre, 2014). This required credit extension arrangements, often in the form of bank loans (Bähre, 2014; Kgatla, 2016). Since most banks and financial institutions require a tax reference number before providing a loan (Naicker & Rajaram, 2019) financial formalisation in the form of tax registration was of utmost importance for receiving the support under the Revised TRP (Venter, 2013). The TRP and Revised TRP resulted in protest marches, blockades, intimidation and violence (Magubane, 2003; Vegter, 2020).

In 2006, the South African Department of Transport introduced the IRPTN programme worth R14.5 billion as an alternative to the TRP for taxing the minibus taxi industry. By 2007, the Bus Rapid Transit (BRT) system was initiated as part of the IRPTN programme (Schalekamp & Klopp, 2018; Venter, 2013). The BRT system – which was implemented regionally by several metros – aimed to remove unroadworthy taxis from competitive routes and required minibus taxi operators to form a bus company in which they would hold a share (McCaul, 2009; Venter, 2013).

Again, the government compensated the industry for transitioning to the new bus company, which was now tax compliant, and an income tax number was automatically assigned by SARS upon registration with the Companies and Intellectual Property Commission (CIPC) (SARS, 2021).

The industry's opposition posed a significant challenge to the implementation of the BRT system (McCaul, 2009). A criticism of the BRT system was that the government "allegedly" did not consult the minibus taxi drivers (who operate at the bottom of the hierarchy) but instead formed Santaco (at the top), which promoted the implementation of the BRT system, despite the threat of 40,000 minibus taxi drivers losing their jobs (Vegter, 2020). To demonstrate their resistance to the BRT system, several minibus taxi drivers participated in protest marches and blockades and some resorted to intimidation and/or violence (Bähre, 2014). Minibus taxi commuters were also dissatisfied with the implementation of the BRT system as the cost to replace minibus taxis was passed onto and absorbed by them (Vegter, 2020).

The BRT system's success has been hampered by the continued presence of unroadworthy taxis in the public transportation system (Mamabolo & Sebola, 2018). Despite the above challenges, the BRT system remains operational in Cape Town (the MyCiti bus system), Johannesburg (the Rea Vaya bus system), and Tshwane (A Re Yeng bus system) (Schalekamp & Klopp, 2018). While the success of the BRT system is debatable, there is still more that can be done to enhance formalisation of the industry.

What is the Block Management System (BMS)?

This article explores the potential of the (BMS) tax collection programme, which has been successfully implemented in Tanzania, as a way to address the shortcomings in the formalisation of the minibus taxi industry in South Africa by improving tax revenue collection from the industry. This systematic literature review examines the effectiveness of the BMS in Tanzania and its relevance to the South African context.

Case study: Tanzania

In 2005, the Tanzania Revenue Authority (TRA) introduced the BMS to improve the administration of presumptive tax and enhance the efficiency and effectiveness of SMME taxation in Tanzania (African Tax Administration Forum, 2014; Dube & Casale, 2016; George & Olan'g, 2020). The diversity of SMMEs presented significant challenges to Tanzania's tax administration and system (African Tax Administration Forum, 2014; George & Olan'g, 2020). The key challenges identified by the African Tax Administration Forum (2014) are discussed below.

First, there is a pervasive issue of inadequate compliance management in conjunction with a tradition of non- compliance among SMMEs, a problem that becomes more pronounced due to inconsistent trading activities and patterns. Second, reliable and credible registration of taxpayers often encounters obstacles due to difficulties in accurate identification. Third, the inherent complexity of tax laws, regulations and procedures, a widespread knowledge gap, and lack of sufficient assistance are strong disincentives to tax compliance.

Moreover, the rapid expansion of the *underground economy* and the rise of innovative tax evasion strategies employed by some SMMEs add to the predicament. The situation is also worsened by poor record-keeping or a complete absence of records among some SMMEs. Lastly, the focus of current tax administration reforms is primarily on large taxpayers, leaving a significant gap in the design and implementation of compliance strategies specifically intended for SMMEs (African Tax Administration Forum, 2014).

How did the BMS solve the issues related to taxing SMMEs?

The BMS was designed to combat tax evasion by registering all SMMEs and collecting essential tax data on their economic activities (Fjeldstad & Heggstad, 2012; George & Olan'g, 2020; Kgatla, 2016). By implementing the BMS, the TRA was able to address compliance management challenges and simplify the taxation of SMMEs, ensuring their compliance with the law and effective contribution to the government's revenue (African Tax Administration Forum, 2014; Kgatla, 2016).

The BMS utilises a territorial approach by dividing economic concentrations into local segments based on their geographic location or administrative structure, often by clustering a few streets together (Fjeldstad & Heggstad, 2012; Rono, 2020). The first step in the BMS is to identify and map the regions in which SMME taxpayers operate and conduct their business (Fjeldstad & Heggstad, 2012; Chalu & Mzee, 2018). Local authorities and business organisations that collect levies and fees on behalf of SMMEs, as well as those that have knowledge of their locations, are involved in the process. This enables the TRA to exchange data with local government entities about the location and composition of SMMEs (African Tax Administration Forum, 2014).

The BMS is not a separate tax system (African Tax Administration Forum, 2014). It covers a range of taxes, including corporate income tax, personal income tax, withholding taxes, value-added tax (VAT) and employment taxes. Each local territory or segment, known as a "block", is responsible for registering, assessing, collecting and accounting for taxes received (African Tax Administration Forum, 2014; Dube & Casale, 2016; Fjeldstad & Heggstad, 2012). To ensure effective management, each block is overseen by a leader who reports to an assistant manager, with assistants assigned to specific tasks (African Tax Administration Forum, 2014). Each block is required to provide regular reports with updates on its activities, and performance targets are used to evaluate its performance against predetermined benchmarks and deadlines (African Tax Administration Forum, 2014; Fjeldstad & Heggstad, 2012). To manage the system, each block is staffed by an accountant, collection assessor, and registration clerk (Fjeldstad & Heggstad, 2012), and TRA officers rotate between the blocks they periodically supervise (African Tax Administration Forum, 2014; Dube & Casale, 2016; Fjeldstad & Heggstad, 2012) to ensure accountability and oversight.

The BMS employs various measures to ensure the effective monitoring and enforcement of tax compliance by SMME taxpayers. One such measure involves conducting field surveys, which entail officers visiting taxpayers' homes and business premises to update their personal and commercial information, identify late and absent filers, educate taxpayers, conduct audits and enforce tax laws (African Tax Administration Forum, 2014; Kgatla, 2016). These visits are documented in the block surveillance register, which tracks all relevant information before and after the officer performs these duties. To aid record-keeping, each block also maintains a register of all pertinent

information for all taxpayers, including assessments received by each block taxpayer (African Tax Administration Forum, 2014; Kgatla, 2016). By employing these measures, the BMS ensures that SMME taxpayers comply with tax laws and contribute effectively to government revenue.

The effectiveness of the BMS in Tanzania

The implementation of the BMS has been highly effective in achieving its goals, as evidenced by its positive impact on SMME taxpayers' compliance with their tax obligations (Kgatla, 2016; Chalu & Mzee, 2018; Rono, 2020). This success is demonstrated by a significant increase in revenue yield and taxpayer numbers, as well as improved monitoring and cooperation with local authorities, resulting in a greater number of businesses registering and paying taxes (Chalu & Mzee, 2018; Rono, 2020).

The success of the BMS in achieving its revenue targets is evident in the figure above, which shows a clear upward trend in revenue collection following the implementation of the system. Overall, the BMS has proven to be an effective tool in increasing tax compliance among SMMEs and achieving revenue targets in various countries.

The number of SMME taxpayers increased from 372,600 in 2010 to 432,012 in 2011, and then to 493,714 in 2012. With the increase in SMME taxpayers, tax revenue collection also increased, from US$500 million in 2010 to US$600 million in 2011 and US$900 million in 2012 (African Tax Administration Forum, 2014; Kgatla, 2016).

The BMS has been particularly successful in improving the administration of presumptive taxes, with the number of presumptive taxpayers increasing from 199,448 in 2005-2006 to 376,673 in 2009-2010 (Dube & Casale, 2016). Additionally, the BMS has been instrumental in reaching previously unreached taxpayers, as evidenced by the 16%, 43% and 41% of newly registered businesses in the 2006-2007, 2007-2008 and 2008-2009 assessment years respectively (Fjeldstad & Heggstad, 2012; Dube & Casale, 2016). In 2015-2016, Tanzania had 2.2 million registered taxpayers (National Bureau of Statistics, 2021). By 2020-2021, Tanzania had 4.107 million registered taxpayers which was a 29.1% increase from the 3.181 million registered taxpayers in 2019-2020 (National Bureau of Statistics, 2021).

Other African countries have also been inspired by the success of the BMS. For instance, the Zimbabwe Revenue Authority (ZIMRA) adopted BMS with effect from 1 January 2023 (Zhakata, 2023). Zambia, Malawi, Kenya, Rwanda, Mauritius and Uganda have also implemented the BMS after seeing its success in Tanzania (Chalu & Mzee, 2018; Rono, 2020).

Recommendations for taxing the minibus taxi industry

To enhance tax collection from the minibus taxi industry, the South African National Treasury may consider implementing a BMS designed specifically for this industry. Similar to Tanzania's implementation, a block would be a sectorial activity or corporate entity; in this instance a block could be developed for each taxi association, such as a taxi rank or route. Each block would be responsible for registering, assessing, collecting and keeping track of all revenue collected by designated taxi associations. Each block would be able to conduct audits and enforce tax rules within the designated taxi associations.

To prevent corruption and bribery, officials could rotate between blocks, as is done in Tanzania. Taxi associations regulate taxi ranks and routes and charge weekly and one-time fees for each minibus taxi operated by their members. These fees could range from R25 to R2,000, with joining fees ranging from R50,000 to R80,000 (Kerr, 2018). From these weekly membership fees, taxi associations could potentially earn between R5 million[1] and R400 million[2] each week, or between R260 million[3] and R2.08 billion[4] per year. One of the factors contributing to high joining fees is the substantial profits from operating a minibus taxi (Kerr, 2018). This is the case for several routes, as minibus taxi ownership is profitable due to entry barriers and monopoly price controls (Kerr, 2018).

Taxi associations would therefore play a significant role in South Africa's minibus taxi industry, collecting membership fees that generate annual revenues of between R260 million and R20.8 billion. Taxi associations are in a unique position to be targeted for taxation as they are supported by membership and joining fees, which qualify as gross income under Section 1 of the SA Income Tax Act, 58 of 1962.

Since taxi operators must pay these fees to operate their taxis (Bähre, 2014), taxi associations are successful in collecting them due to their strict enforcement policies. This means that partnering with taxi associations could allow the SARS to effectively collect taxes from minibus taxi operators.

Moreover, taxi associations are required to register with Provincial Taxi Registers as well as the CIPC to operate (Ahmed, 1999; Department of Transport, 2020), making it easier for the SARS to identify and audit them for tax compliance. This approach would enable the SARS to obtain assurances regarding the amount of tax owed by taxi associations, based on their membership figures and the set membership fees that each member must pay. Taxing taxi associations could lead to the SARS receiving a portion of their membership and joining fees, ultimately increasing its total tax collection from the minibus taxi industry.

In summary, the formalisation and taxation of taxi associations could be a viable solution for increasing tax revenue from South Africa's minibus taxi industry. By partnering with taxi associations and enforcing tax compliance, the South African government could ensure that these important stakeholders are contributing their fair share to society while simultaneously improving the overall sustainability and safety of the industry.

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ENDNOTES

1. R25 X 200,000 MINIBUS TAXIS = R5,000,000
2. R2,000 X 200,000 MINIBUS TAXIS = R400,000,000
3. R5,000,000 X 52 (NUMBER OF WEEKS IN A YEAR) = R260,000,000
4. R400,000,000 X 52 = R20,800,000,000