



# MoneyTalk

## Budget 2005: Bonanza for Small Businesses

### 2005 BUDGET ANNOUNCEMENT

THIS year's budget includes about R2bn worth of special deals for small businesses, hard evidence of Government's commitment to shoring up South Africa's entrepreneurial spirit.

#### TAX RELIEF

- Historically, to qualify for preferential tax treatment **small, medium and micro enterprises** (SMMEs) had to have an annual turnover below R5m. That has been increased to R6m, to extend the relief to more businesses.
- In addition, "**personal services companies**" with more than four employees are also included for the first time. That means that companies like accounting firms, IT companies and engineering companies will be able to claim preferential tax treatment.
- A **R35 000 tax-free bracket** is introduced for SMMEs incorporated as close corporations or limited liability companies. The first R35 000 in taxable income that a company earns will be tax-free. Government hopes this will encourage sole proprietors to incorporate their businesses by putting SMME tax in line with personal tax treatment – individuals get a R35 000 tax-free allowance.
- The **preferential tax rate is lowered** from 15 per cent to 10 per cent. Historically SMMEs were taxed at a rate of 15 per cent on all taxable income below R100 000. Now, the first R35 000 is tax-free and anything above that is taxed at 10 per cent (capped at R250 000 — anything above that is subject to the corporate tax rate). So, last year a small business that earned R100 000 would have paid R15 000 in tax. From April 1, the same business would pay R6 500 in tax – a reduction of more than 50 per cent.
- In addition, the **wear-and-tear allowance** is accelerated. Historically, a 100 per cent allowance was given, but only on manufacturing equipment. Now, SMMEs can write off capital assets over three years – 50 per cent in year one, 30 per cent in year two and 20 per cent in year three. According to SARS this "ought to encourage small businesses to acquire the necessary capital assets to grow their businesses, especially at present while the rand is enjoying a period of relative strength against many of the major currencies".

#### STREAMLINING TAXES

In the 2004 Global Entrepreneurship Monitor, South Africa had a Total Entrepreneurial Activity index score of 5.4 per cent, significantly below the average of 9.4 per cent.

To pump up our performance, the report suggested "improving the regulatory environment to reduce the cost to businesses of compliance, rethinking the way in which government supports small enterprises and improving access to financial support."

President Thabo Mbeki echoed this in his State of the Nation address. Said Mbeki, "Government will complete the system of exemptions for

[small] businesses with regard to taxes, levies, as well as central bargaining and other labour arrangements. The system of tax and levy payments and business registration will be reviewed, with the aim of introducing a simpler and streamlined system for all businesses by April 2006."

True to its promise, Government has introduced a set of streamlining measures.

- The special VAT (Value-added Tax) package for small retailers, announced in last year's Budget, will be implemented this year. This scheme will provide a practical alternative for calculating the VAT liability if the vendor does not have a cash register that can distinguish between zero rated (like bread and vegetables, which attract no VAT) and standard rated (items subject to 14 per cent VAT) sales.
- The **Skills Development Levy** (SDL) is a levy all employers pay on behalf of their employees, equal to 1 per cent of payroll. Small businesses with a payroll of R500 000 or less are now exempt from the SDL; last year's threshold was R250 000.
- A small business bugbear, **Regional Services Council and Joint Services Board levies**, are abolished this year. These measures are all intended to ease the compliance burden.
- Streamlining entry.** The idea here is to make it easy for small businesses to enter the tax net. Small business owners who have failed to register for tax, or to disclose all relevant tax information are usually scared to come forward for fear of SARS's wrath.

Perhaps emboldened by the success of the exchange control amnesty, Government is proposing a type of **disclosure amnesty** for wayward small business taxpayers. It proposes the waiver of penalties or additional tax if the taxpayer comes forward voluntarily before SARS begins any investigations.

In addition, taxpayers registering for the first time will only have to complete a **single form**.

**\*Streamlining filing.** VAT filings have historically had to be made every two months; this has been changed to **every four months** for businesses with a turnover of less than R1m, to make the filing process less onerous.

In addition SARS's e-filing service has been extended, and will include applications for tax clearance certificates for tenders, among other things.

**\*Business assistance.** SARS will make community tax helpers available to assist SMMEs with tax compliance. It will also introduce small business **help desks and centres**, with extended call centre hours. The help desks kick off in March this year, and the first SMME centre will open in August.

SARS will also offer SMMEs a **free accounting and payroll software** package to help them with compliance and record keeping.

This article was extracted from Tax Breaks.

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