

## CHARTERED ACCOUNTANTS

PHYSICAL SUITE 106, 320 SMITH STREET, DURBAN, KWAZULU NATAL, SOUTH AFRICA

POSTAL PO BOX 48619, QUALBERT, 4078

TEL + 27 31 301 3392 FAX + 27 31 301 3395

EMAIL [global@sjcasa.co.za](mailto:global@sjcasa.co.za) WEB [www.sjcasa.co.za](http://www.sjcasa.co.za)



# MoneyTalk

## Does your business qualify for the lower tax rate?

THE GROWTH of small businesses is the key to job creation, and for several years now Government has tried to encourage small business by granting them a lower rate of tax than that for their larger counterparts. Finance Minister Trevor Manuel broadened this incentive when in his February Budget speech he announced a change to the definition of a Small Business Corporation, the result of which is that many more businesses will now fall into this category and enjoy the tax relief.

From the 2007 tax year, if a company's annual gross income is expected to be less than R14 million, it may now be eligible for the lower tax rate. But it's not as simple as that, there are other requirements to be met to qualify for the tax relief.

So, which companies will, and which won't, now qualify as a Small Business Corporation?

Grant Thornton Cape Town tax manager, Wendy Oehley, provides some clarification:

### WHAT CONSTITUTES A SMALL BUSINESS CORPORATION?

(Please note that for the purpose of simplicity, 'company' refers also to close corporations and 'shareholders' also refers to members of close corporations.)

As long as your company is not an **employment company** (see 1.) and you can answer yes to all of the questions below, you may be able to take advantage of the opportunity for reducing your tax bill.

- Is the company's annual gross income, excluding capital gains, expected to be less

than R6 million for 2006 or less than R14 million for 2007?

- Are the shareholders of your company natural persons?
- Are the shareholders' shares in your company their only shares or interest, other than in listed shares, collective investment schemes or body corporates?
- Is your company's **investment income** (see 2.) plus income from the rendering of a **personal service** (see 3.) less than 20 per cent of gross income, including capital gains?

### PROFESSIONAL SERVICES COMPANIES

The change in the definition of a Small Business Corporation extends to professional services companies, who may now qualify as an SBC, provided the company employs at least four non-connected, full-time employees engaged in the business.

### WHAT ARE THE TAX BENEFITS?

- The tax rate for an SBC is considerably lower than that of a normal company. Whilst most other companies pay tax at the rate of 29 per cent on their taxable income, an SBC will pay:

For years of assessment ending on or after 1 April 2005:

- 0% tax on the first R35 000 of taxable income;
- 10% tax on the amount by which taxable income exceeds R35 000; and
- 29% tax on the amount by which taxable income exceeds R250 000.

For years of assessment ending on or after 1 April 2006:



## CHARTERED ACCOUNTANTS

PHYSICAL SUITE 106, 320 SMITH STREET, DURBAN, KWAZULU NATAL, SOUTH AFRICA

POSTAL PO BOX 48619, QUALBERT, 4078

TEL + 27 31 301 3392 FAX + 27 31 301 3395

EMAIL [global@sjcasa.co.za](mailto:global@sjcasa.co.za) WEB [www.sjcasa.co.za](http://www.sjcasa.co.za)



- 0% tax on the first R40 000 of taxable income;
- 10% tax on the amount by which taxable income exceeds R40 000; and
- 29% tax on the amount by which taxable income exceeds R300 000.
- An SBC that carries on a process of manufacture or similar process, may write off the full acquisition expenditure of plant or machinery in the year in which first brought into use.
- An accelerated allowance is granted for any other machinery, plant, implement, utensil, article, aircraft or ship, namely:
  - 50% of cost in the first year the asset is brought into use;
  - 30% in the second year; and
  - 20% in the third year.
- *The amounts paid or payable in respect of that service consist of or include earnings that are payable at regular daily, weekly, monthly or other intervals; or*
- *More than 80 per cent of the income of that company consists of amounts directly or indirectly received from one client.*

### 2. INVESTMENT INCOME

*Investment income includes income derived from dividends, royalties, rentals, annuities, interest, amounts that represent return on investments and any other similar income such as income from money lent, and such as proceeds from trading in financial instruments, marketable securities or immovable property.*

### 3. PERSONAL SERVICES

*Personal services means any services in the field of accounting, actuarial science, architecture, auctioneering, auditing, broadcasting, broking, commercial arts, consulting, draftsmanship, education, engineering, entertainment, health, information technology, journalism, law, management, performing arts, real estate, research, secretarial services, sport, surveying, translation, valuation or veterinary science, if:*

- (i) *That service is performed personally by any person who holds an interest in that company; and*
- (ii) *That company does not throughout the year of assessment employ at least four full-time employees engaged in the business of that company (other than any employee who is a connected person in relation to the company or shareholder).*

**Oehley explains the terms referred to above:**

#### 1. EMPLOYMENT COMPANY

*An employment company is:*

*(i) A company that is a labour broker as defined in the Act, unless issued with a certificate of exemption (IRP30); or*

*(ii) A personal services company, i.e. a company where services are rendered on behalf of that company to a client of that company personally by any person who is a connected person in relation to that company, and -*

- *That person would be regarded as an employee of that client if that service was rendered by that person directly to the client; or*
- *That person or that company is subject to the control or supervision of that client as to the manner in which, or the hours during which, the duties are performed in rendering that service; or*

This publication was copied from a publication issued by Tax Breaks written by Kathy Thersby.

*This publication is issued from time to time to inform clients and others of changes and updates in Law, etc. They are published for general information and not intended as legal or other advice. As every situation depends on its own facts and circumstances, only specific professional advice should be relied upon. This publication is subject to our standard Disclaimer to be found at our website [www.sjcasa.co.za](http://www.sjcasa.co.za).*

4 July 06





ERROR: syntaxerror  
OFFENDING COMMAND: --nostringval--

STACK:

(Does your business qualify )  
/Title  
( )  
/Subject  
(D:20060711122723)  
/ModDate  
( )  
/Keywords  
(PDFCreator Version 0.8.0)  
/Creator  
(D:20060711122723)  
/CreationDate  
(Ingrid Jordan)  
/Author  
-mark-