

REVIEW OF SMALL BUSINESS TAX RELIEF MEASURES IN SOUTH AFRICA

by

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Submitted in partial fulfilment of the requirements for the degree
MAGISTER COMMERCII IN TAXATION

in the

FACULTY OF ECONOMIC AND MANAGEMENT SCIENCES

at the

UNIVERSITY OF PRETORIA

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October 2013

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ACKNOWLEDGEMENTS

I wish to express my gratitude to my husband, Gerhard Stols, my mom, Judith Coetzee and my mother-in-law, Dalena Stols, for their encouragement, patience and support throughout my studies.

I would also like to thank my study leader Mr Karl Homeier for all his assistance and guidance with this mini-dissertation.

ABSTRACT

REVIEW OF SMALL BUSINESS TAX RELIEF MEASURES IN SOUTH AFRICA

by

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Small businesses form an essential part of any country's economy and these businesses are essential for growth and employment opportunities. It is however recognised that the success of small businesses are dependent on a few factors of which tax relief measures are one. The South African Government is supporting small businesses in our country through various initiatives and current small business tax relief measures form part of these initiatives.

This study focuses on only two such tax relief measures namely section 12E of the Income Tax Act for entities that qualify as a small business corporation and Turnover Tax for entities that qualify as micro businesses. These two tax relief measures aim to give small businesses reduced tax rates to assist them to grow and contribute towards job creation in South Africa. The unemployment rate in South Africa in the second quarter of 2013 was 25.6%. This is thus one indication that the tax relief measures per section 12E of the Income Tax Act and Turnover Tax are possibly not meeting the objectives of assisting small businesses to grow and alleviate unemployment.

This study focuses on researching the current small business tax relief measures in South Africa. The study thus commences with a literature review regarding the small business tax relief measures per section 12E of the Income Tax Act and Turnover Tax. It also

includes detailed discussions regarding the criteria which should be met by small businesses to qualify for the tax relief per section 12E and Turnover Tax. The study then proceeds to obtain and analyse data through a questionnaire to accountants regarding their opinion of the current small business tax relief measures. Finally the study researches the objectives set out by SARS for section 12E of the Income Tax Act and Turnover Tax to determine whether these objectives have been met or not and to critically compare this to the responses from the accountants on the same subject.

As a result this study will assist the South African Government to determine areas for possible improvement in the current small business tax relief measures. Improvements in such tax relief measures could then contribute positively towards the economy of South Africa as a whole.

The small business tax relief measures were however limited to those already implemented in South Africa and further research could possibly be conducted regarding such tax relief measures in other developing countries similar to South Africa.

OPSOMMING

NAVORSING OOR DIE BELASTINGVERLIGTINGSMAATREËLS VIR KLEIN BESIGHEDE IN SUID-AFRIKA

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Klein besighede vorm 'n baie belangrike deel van enige land se ekonomie en die besighede is dus noodsaaklik vir groei- en werksgeleenthede. Dit word egter erken dat die sukses van klein besighede afhanklik is van 'n paar faktore waarvan belastingverligtingsmaatreëls een is. Die Suid-Afrikaanse Regering ondersteun tans klein besighede in die land deur 'n verskeidenheid inisiatiewe en belastingverligtingsmaatreëls vorm deel hiervan.

Die studie fokus net op 2 van die belastingverligtingsmaatreëls vir klein besighede, naamlik artikel 12E van die Inkomstebelastingwet vir besighede wat as 'n klein besigheidskoöperasie kwalifiseer en Omsetbelasting vir besighede wat as 'n mikro-besigheid kwalifiseer. Die twee belastingverligtingsmaatreëls beoog om verlaagde belastingkoerse vir klein besighede te gee om hulle te help om te groei en by te dra tot werkskepping in Suid-Afrika. Die werkloosheidssyfer in Suid-Afrika in die tweede kwartaal van 2013 was 25.6%. Die syfer is een van die aanduidings dat die huidige belastingverligtingsmaatreëls per artikel 12E van die Inkomstebelastingwet en Omsetbelasting moontlik nie die doelwitte bereik om klein besighede te help groei en werkloosheid te verlig nie.

Die studie het gefokus op navorsing van die huidige klein besigheidsbelastingverligtingsmaatreëls in Suid-Afrika. Die studie gaan dan voort met die navorsing van huidige literatuur aangaande belastingverligtingsmaatreëls vir klein besighede. Dit sluit ook 'n in-diepte bespreking van die kriteria waaraan besighede moet voldoen om te kwalifiseer vir die belastingverligtingsmaatreëls per artikel 12E en Omsetbelasting in. Die studie handel dan vervolgens oor die insameling en ontleding van data deur middel van 'n vraelys aan rekenmeesters ten op sigte van hul mening oor die huidige belastingverligtingsmaatreëls vir klein besighede. Ten slotte is daar navorsing gedoen oor die doelwitte wat SARS vir artikel 12E van die Inkomstebelastingwet sowel as Omsetbelasting uiteengesit het om vas te stel of die doelwitte wel bereik is of nie. Die resultate word dan krities vergelyk met die resultate wat van die rekenmeesters in die vraelyste verkry is.

As 'n resultaat behoort die studie Suid-Afrika se Regering te help om enige areas vir verbetering in die huidige belastingverligtingsmaatreëls vir klein besighede vas te stel. Verbeteringe in die belastingverligtingsmaatreëls kan dan positief bydra tot die ekonomie van Suid-Afrika as 'n geheel.

Die belastingverligtingsmaatreëls vir klein besighede was egter beperk tot dié wat reeds in Suid-Afrika geïmplementeer is en verdere navorsing kan gedoen word ten opsigte van sulke belastingverligtingsmaatreëls in ander ontwikkelende lande wat soortgelyk aan Suid-Afrika is.

REVIEW OF SMALL BUSINESS TAX RELIEF MEASURES IN SOUTH AFRICA

CHAPTER 1

INTRODUCTION

1.1 BACKGROUND

In the 2013 Budget Speech of South Africa the Minister of Finance, Mr Pravin Gordhan, stated that small businesses form an essential part of the development of South Africa's economy and also contribute significantly to the creation of employment (Moneyweb, 2013:6-7). In any country's economy it is essential for small businesses to grow and contribute to its economic wealth through increased revenue generation and job creation.

Tax relief measures could contribute to the growth of small businesses. One of the objectives of this study is thus to research whether small businesses should be subsidised or treated differently from other businesses for tax purposes. In the current South African tax legislation there are quite a few tax relief measures for example section 12E of the Income Tax Act No. 58 of 1962, Capital Gains Tax (CGT) relief, Value Added Tax (VAT) relief and the Turnover Tax regime. It is clear that small businesses are currently treated differently for tax purposes in South Africa. This study aims inter alia to determine whether small businesses should be treated differently and if any possible changes are required to the tax legislation to make it more beneficial for small businesses and the economy of South Africa as a whole.

Small businesses operate differently from other larger businesses due to their size and structure. It is necessary to determine which factors impact small businesses to conclude whether these businesses should be treated differently for tax purposes and what is the impact of such treatment on the economic growth of small businesses. One of the most important factors that have been determined to impact small businesses is cash flow (Bridges, 2010:268). Most small businesses require cash flow to grow and this study will determine whether taxes impact the cash flow and growth of small businesses.

1.2 PROBLEM STATEMENT

Currently there is sufficient literature available regarding the tax relief measures available for small businesses (Aucamp, 2010:1) and the tax compliance burden on these businesses (Sieberhagen, 2008:1). There is, however, a knowledge gap regarding whether the current tax relief measures for small business are beneficial to them. It is also to be determined whether the objectives set to be achieved by these tax relief measures are actually achieved.

1.3 PURPOSE STATEMENT

The aim of this paper is to review the effectiveness of tax relief measures for small businesses in South Africa. This paper will also research what impact the current tax relief measures have on the economic growth of small businesses. It will address the question of whether the current small business tax relief measures per the Turnover Tax regime and section 12E of the Income Tax Act are achieving the objectives set out when these specific tax relief measures were implemented.

1.4 RESEARCH OBJECTIVES

The following research objectives will guide this study:

- To determine the impact taxes have on the economic success or failure of small businesses and whether small businesses should be treated differently for tax purposes;
- To determine whether the current small business tax relief measures are achieving the objectives set out when the tax legislation was implemented;
- To determine the opinion accountants have on the current tax relief measures available to small businesses and whether these tax reliefs contribute positively towards the growth and success of the small businesses;
- To determine the impact of small business tax incentives on the cash flow of small businesses.

1.5 IMPORTANCE AND BENEFITS OF THE PROPOSED STUDY

Small businesses form a very important part of the economy and contribute significantly to developing countries' economic wealth as confirmed by Professor Albert Berry of the University of Toronto (Berry, 2007:1). As South Africa is a developing country, small businesses will also contribute toward its economic wealth. Berry (2007:1) stated that small businesses contribute greatly to job creation, which in turn leads to increase in revenues. As these small businesses grow and become larger businesses, they will contribute positively to the economy as a whole (Berry, 2007:1). In South Africa, the project director of tax at the South African Institute of Chartered Accountants, Muneer Hassan, also brought this under the attention of the Minister of Finance, Mr Pravin Gordhan, when he asked the minister to please do something for the small businesses in our country, as they form the backbone of our country's economy (Temkin, 2010:59). It is thus imperative to do further research on the current objectives being met by the small business tax relief measures in South Africa. The study will also obtain the opinion of accountants of small businesses on whether they feel the tax relief measures are beneficial to small businesses or not. Research will also be done to determine whether the tax relief measures available in South Africa contribute towards the economic growth of small businesses to grow into larger businesses which will in turn impact positively on South Africa's economy, wealth creation and job creation (Bridges, 2010:268).

The rest of the document is structured as follows: chapter 2 is a literature review and composes of a discussion of current literature regarding small business tax relief, the general and specific definitions of a small business and a practical example of the tax advantages when applying section 12E of the Income Tax Act and Turnover Tax. Chapter 2 also reviews other factors that impact the success of section 12E of the Income Tax Act and Turnover Tax. Chapter 3 discusses the research design and methods used for this study. Chapter 4 contains the analysis of data obtained through the questionnaires distributed for the study. Chapter 5 gives a brief overview of the objectives set out by SARS for section 12E of the Income Tax Act as well as for Turnover Tax and Chapter 6 contains the conclusion of the research study.

1.6 DELIMITATIONS AND ASSUMPTIONS

1.6.1 DELIMITATIONS

This study is limited to the income tax relief measures available in South Africa.

Large entities are excluded from this study as the focus is on the tax relief measures available to small businesses.

The study will focus on tax relief measures that are already implemented. Any proposed tax relief measures will be briefly discussed, but not analysed.

The survey to determine the view of accountants will be limited to accounting firms in Pretoria, South Africa only.

Farming, mining companies, exploration companies, insurance companies, recruitment companies, personal service companies and labour brokers are excluded from this study due to their specialised nature. Specific tax policies apply to these entities and are therefore not discussed.

The legislation discussed in this research proposal for South Africa is limited to the Income Tax Act (58/1962) and the Value-Added Tax Act (89/1991).

1.6.2 ASSUMPTIONS

- Corporation, company, business and enterprise can be used interchangeably.
- Small business, micro business, small, medium and micro enterprise (SMME) and small and medium enterprise (SME) can be used interchangeably.
- Tax relief measures implemented by SARS are deemed to be implemented by the South African government.

1.7 DEFINITION OF KEY TERMS

The key terms included in this study are defined below:

Compliance cost: Compliance cost includes the time spent on understanding and applying the rules, cost of compiling records and preparing tax returns, payments to experts and minor postage, telephone and travel costs to communicate with experts or the tax authorities (Smulders, 2007:59).

Small, medium and micro businesses: The definitions in terms of the tax legislation of South Africa will be used for the purpose of this study. This term is discussed in detail in chapter 4.

Turnover Tax: This is a single tax system available to small businesses that meet the criteria of a micro business as per the Sixth Schedule of the Income Tax Act and which has a turnover of R1 million or less. A small business can register for this system which entails that they only have to calculate and pay this single Turnover Tax which is based on their turnover and not their profit figure (Cotten, 2011:1). Turnover Tax thus substitutes the normal income tax, CGT and VAT and is calculated as a single tax figure using the sliding scale as specified by SARS and which is included in table 4, chapter 4 of this study. The micro business calculates its tax liability annually based on its turnover figure and makes payment twice a year (SARS, 2009a:1).

Table 1 below includes a list of the abbreviations used in this study.

Table 1: Abbreviations used in this document

Abbreviation	Meaning
CC	Closed corporation
CGT	Capital gains tax
Income Tax Act	Income Tax Act (58/1962)
ITR14	Income tax return for companies
PAYE	Pay-as-you-earn
SAIPA	South African Institute for Professional Accountants
SARS	South African Revenue Service
SME	Small and medium enterprise

SMME	Small, medium and micro enterprise
Stats SA	Statistics South Africa
STC	Secondary tax on Companies
VAT Act	Value-Added Tax Act (89/1991)
VAT	Value added tax

CHAPTER 2

SECTION 12E AND TURNOVER TAX

2.1 INTRODUCTION

In this chapter, the tax legislation most relevant to this study is considered. As the focal point of this study is small businesses, the chapter commences with a general discussion of current literature regarding the importance of small businesses in South Africa's economy as well as some of the factors that impact their economic growth. The chapter then continues to discuss the definition of a small business in terms of the South African tax legislation. Section 12E of the Income Tax Act and Turnover Tax will also be discussed to stipulate the tax relief they offer for small businesses in South Africa and a practical example to indicate the tax relief per these sections are also included. Previous research and other factors impacting on complying with section 12E of the Income Tax Act and Turnover Tax are also included in this discussion.

2.2 CURRENT LITERATURE REGARDING SMALL BUSINESSES AND TAX RELIEF

Qabaka (2011:15) raises the question whether or not the current South African tax system really supports small businesses. He also noted that South Africa's National Treasury has confirmed in previous years that it is internationally recognised that small businesses form an integral part of employment creation and economic development in South Africa. Qabaka (2011:15) states that the National Treasury of South Africa hoped to improve the cash flow of small businesses by the implementation of the small business tax relief measures which in turn would contribute towards further job creation. It is clear that cash flow is one of the essential elements for the growth of any small business and this study will thus research whether or not tax relief measures could impact positively on the cash flow and growth of small businesses.

As cash flow is important for the growth of small businesses, Bridges (2010:268) notes that small businesses mostly obtain their cash flow through either utilising the savings of the individual owners of the small business or by obtaining loans from investors. Investors want to earn interest on their investments and thus if the interest exemption falls away, as

previously suggested by SARS, the interest earned by the investors will be fully taxable (Bridges, 2010:268). This will dissuade investors from making loans to upcoming businesses (Bridges, 2010:268). This proposed amendment to the interest exemption could thus have a negative impact on the growth of small businesses.

Cash and income, however, translates into possible taxable income for small businesses. It is thus possible for a small business to have taxable income although it lacks the cash to settle the tax liability. The question posed as to whether or not small businesses should be subsidised or treated differently for tax purposes is thus very relevant. Tax relief measures could make or break a small and upcoming business in terms of its cash flow and could have a direct impact on the South African economy and its job creation (Ramusetheli, 2011:1).

2.3 DEFINITIONS OF A SMALL, MEDIUM AND MICRO BUSINESS

2.3.1 GENERAL DEFINITION

In order to identify the entities to which section 12E of the Income Tax Act and Turnover Tax is applicable, it is necessary to consider the exact definition of a small business.

Different criteria are taken into account when establishing what a small business is. The initial definition of a small business as implemented by the European Union in 2003 was updated in 2005 to take into account two additional criteria namely the number of employees as well as the turnover or the balance sheet figures of the business. Per the European Union legislation the definition of a small business is currently an entity that employs less than 50 persons and has an annual turnover or balance sheet total that does not exceed € 10 million (Commissioner of the European Union, 2005).

The United States of America's Small Business Administration (2013) defines a small business as an entity that is independently owned and operated and which is not dominant in its industry. The entity should also comply with an average number of employees in the preceding 12 months or a specified average sales volume in the preceding three years depending on its industry (U.S. Small Business Administration, 2013). For example if an

entity is in the industry of manufacturing, the maximum number of employees may range from 500 to 1 500, depending on the type of product manufactured. For an entity in the services industry, the annual receipts may not exceed \$2.5 to \$21.5 million, depending on the type of service provided (U.S. Small Business Administration, 2013).

From the above two general definitions of a small business per the European Union and the United States of America, it is apparent that different definitions are used in different countries for different tax systems. The specific definitions of a small business per the South African tax legislation will be discussed in the following paragraphs.

2.3.2 Specific definitions of a small, medium and micro business in terms of South African tax legislation

Per the South African tax legislation, the following definitions for small businesses exist:

- small business corporation;
- small business and;
- micro business.

Please refer below for a detailed discussion of these three definitions.

2.3.2.1 Definition of a small business corporation

Section 12E of the Income Tax Act defines a small business corporation and includes all the tax relief measures available to these entities. This section became part of the Income Tax Act in 2001, with an effective date of 1 April 2000 and supplies tax relief to small businesses.

An entity should comply with all of the following criteria to be classified as a small business corporation (Section 12E(4)(a) of the Income Tax Act):

- the entity must be a close corporation, co-operative or private company;
- all shareholders of the entity must be natural persons;
- the gross income of the entity for a year of assessment must not exceed R14 million and where the entity traded for a period shorter than 12 months in the year of

assessment the R14 million will be reduced to an amount in the same ratio as the number of months during which the entity traded in relation to 12 months.

This part of the definition stating that the gross income of the entity must not exceed R14 million has not been increased for quite some time. Due to increased inflation it should be considered to possibly increase the amount of the gross income which an entity can generate to comply with section 12E of the Income Tax Act. Such an increase will contribute to more entities being able to apply section 12E of the Income Tax Act and thus more tax relief is gained and more entities could then grow and contribute positively towards South Africa's economy.

- none of the members or shareholders of the small business may hold any shares in or have any interest in the equity of another company, except for the following entities:
 - a listed company;
 - a collective investment scheme in securities;
 - a body corporate;
 - less than 5% of the shares in a social or consumer co-operative or burial society co-operative or any other co-operative where the income is derived solely from its members;
 - any friendly society as per the Friendly Societies Act of 1956;
 - less than 5% of the shares held in a primary savings co-operative bank or a primary savings and loan co-operative bank;
 - a venture capital company;
 - any company, close corporation or co-operative that has not carried on a trade during the year of assessment and has not owned assets with a total market value of more than R 5,000 or;
 - any company, close corporation or co-operative that has taken the necessary steps to wind up, deregister or liquidate during the year of assessment.

This specific criterion was included in section 12E of the Income Tax Act to ensure larger entities do not split their income into smaller portions and then have these smaller portions of income taxed at a reduced rate instead of the full tax rate for normal entities of 28% (Arendse, *et al*, 2006:13).

- not more than 20% of the total receipts and/or accruals and capital gains of the entity consists collectively of investment income and income from the rendering of personal services and the entity should not be a personal service provider.

These exclusions from the definition of a small business corporation, as noted in the last bullet point above, has recently come under scrutiny in the first reported court case considering the definition of a small business corporation. The court case is *TML Consultancy CC v CSARS* (ITC 12860 [2012] ZATC 1 (22 June 2012)). As stated by Le Roux (2012:1), a candidate attorney at Cliffe Dekker Hofmeyer Attorneys, this court case mainly addressed the meaning of the term “consulting” or “consultant” when referring to section 12E of the Income Tax Act. It also addressed the matter of a small business corporation rendering consulting services as a “personal service provider” which resulted in an entity not meeting the requirements of section 12E of the Income Tax Act (Le Roux, 2012:1). The appellant defined its revenue as “consultancy fees” and SARS thus disqualified the entity as a small business corporation per section 12E(4)(a)(ii) of the Income Tax Act. This section states that an entity that earns more than 20% of its revenue from investment income and personal services does not qualify as a small business corporation per section 12E. Section 12E(4)(d) defines a “personal service” as including professional services, as well as professional activities requiring a particular qualification. The court found that the meaning of “consulting” or “consult” per the Concise Oxford Dictionary is “a person who provides expert advice professionally”. In this instance the appellant did not have any professional qualification and the service rendered could not be defined as advice given by a professional person. The appellant also earned less than 20% of its income from rendering professional services and investment income. The court thus ruled in favour of the appellant and found it qualified as a small business corporation per section 12E of the Income Tax Act (Le Roux, 2012:1).

Arendse et.al. (2006:13) also noted that the last two requirements, in the last bullet point above on page 11, included in the definition of a small business in the Income Tax Act, were included by the South African Government with a specific objective in mind. The objective was not to give advantage to small businesses that are not creating new jobs or contributing towards South Africa’s gross domestic product.

The definition of a small business corporation as originally implemented into the Income Tax Act in 2001 was last amended in 2009. As noted by Burger (2009:1), originally the definition stated that an entity may not hold any shares in another company or closed corporation (CC) including an interest in an entity that is dormant or a shelf company.

This was included to ensure that larger companies that do not comply with the criteria of a small business corporation will not gain advantage from section 12E by splitting their business and profits into multiple smaller entities. With this amendment the definition was made less strict regarding the shareholding in that the small business can now hold an interest in a shelf company or dormant company as long as the shelf company holds assets with a market value that does not exceed R5,000 (Burger, 2009:1). This criterion of the definition of a small business is a disadvantage for entities that want to comply as some small business owners own more than one business to diversify their business risk and increase opportunities for growth. In the current economic climate it is also deemed by some entities to be a type of insurance policy to have more than one business because if the one fails the owner has another business to continue with.

This study will further research whether the current definition of a small business could possibly be changed further to make it easier for small businesses to comply with the criteria and benefit from the existing tax relief.

2.3.2.2 Definition of a small business

An entity could obtain CGT relief if it meets the requirements of the definition of a “small business” as set out in the Eighth Schedule of the Income Tax Act.

A small business is defined as an entity of which the market value of all its assets as at the date of disposal does not exceed R10 million (Paragraph 57 of the Eighth Schedule of the Income Tax Act).

Per paragraph 57 of the Eighth Schedule of the Income Tax Act, a small business that disposes of an active business asset qualifies for CGT relief. An active business asset is an asset which constitutes immovable property to the extent that it is used for business purposes as well as any other movable assets which are used exclusively for business purposes (Paragraph 57(1) of the Eighth Schedule of the Income Tax Act). Excluded from the definition of active business assets are financial instruments and assets held in a business of which the main purpose is to obtain income in the form of an annuity, a foreign exchange gain, rental income or royalty or any income of a similar nature.

Persons qualifying for the CGT relief per paragraph 57 are as follows:

- a natural person that is the owner of a sole proprietorship qualifying as a small business;
- a natural person that is a partner in a partnership qualifying as a small business;
- a natural person that has a direct interest of at least 10% or more in a company qualifying as a small business.

Per paragraph 57 it states that the persons qualifying for the CGT relief should have held their interest in the entity for at least 5 years prior to the disposal of the assets. The person that disposes of the assets should have been actively involved in the business operations and should have reached the age of 55 years. The reason for the disposal should have been due to ill-health, superannuation, infirmity or death. The total amount of the capital gains that can be disregarded during the lifetime of a qualifying person may not exceed R1.8 million. Paragraph 57 also notes that after the disposal of the first small business asset, all other assets forming part of that business must be disposed of within 24 months.

2.3.2.3 Definition of a micro business

The South African Minister of Finance, Mr Pravin Gordhan, stated in the 2013 Budget Speech that small businesses form an essential part of South Africa's economy by contributing towards job creation and generating revenue (Moneyweb, 2013:6-7). The Government of South Africa thus introduced a further tax relief measure for small businesses to assist them in their economic growth in the form of Turnover Tax. This is an optional system and was introduced on 1 March 2009. The Sixth Schedule of the Income Tax Act contains all the requirements for an entity to qualify for Turnover Tax. It also indicates the taxes payable by an entity that meets the requirements of a micro enterprise.

Paragraphs two and three of the Sixth Schedule of the Income Tax Act define a micro business as an entity that complies with the following:

- a person that is a natural person or a company and;
- the turnover of that person does not exceed R1 million for the year of assessment.

This limit on the turnover of micro businesses set at R1 million has remained the same since the promulgation of Turnover Tax in 2009. As noted by Botes and Lester (2012:1) this limit of R1 million is minimal and businesses registered formally in the retail, manufacturing and construction sectors, will benefit minimally from this limit as their turnovers should greatly exceed R1 million if they want to be sustainable (Lester & Botes, 2012:1).

Persons specifically excluded from being a micro business as per paragraph three of the Sixth Schedule of the Income Tax Act is as follows:

- a person that at any time during the year of assessment holds any shares or interest in the equity of another company except in the following companies:
 - a listed company;
 - a collective investment scheme in securities;
 - a body corporate;
 - a venture capital company;
 - if less than 5% of the shares are held in a social or consumer co-operative or burial society co-operative or any other co-operative where the income is derived solely from its members;
 - less than 5% of the shares held in a primary savings co-operative bank or a primary savings and loan co-operative bank or;
 - any friendly society as per the Friendly Societies Act of 1956.
- more than 20% of the persons income consists of:
 - income from rendering services as a personal service provider if the person is a natural person and;
 - investment income and income from rendering professional services if the person is a company;
- if the person is classified as a “personal service provider” or a “labour broker” during the year of assessment as defined in the Fourth Schedule of the Income Tax Act, excluding a labour broker with a certificate of exemption in terms of paragraph 2(5) of the Fourth Schedule;
- the total of all amounts received from the disposal of immovable property used mainly for business purposes and any other asset of a capital nature used mainly for business purposes exceeds R1.5 million over a period of three years comprising the current year

of assessment and the immediately preceding two years of assessment or such shorter period for which the person was registered as a micro business;

- if the person is a company:
 - its year of assessment ends on a date other than the last day of February;
 - if during a year of assessment any of its shareholders is a person other than a natural person;
 - the shareholders of the company may not hold shares in any other company except for the following:
 - a listed company;
 - a collective investment scheme in securities;
 - a body corporate;
 - a venture capital company;
 - if less than 5% of the shares are held in a social or consumer co-operative or burial society co-operative or any other co-operative where the income is derived solely from its members;
 - less than 5% of the shares held in a primary savings co-operative bank or a primary savings and loan co-operative bank or;
 - any friendly society as per the Friendly Societies Act of 1956.However the above does not apply if the company in which the shares were held during the year did not trade and does not own assets with a market value exceeding R5,000 or the company has taken steps to deregister, liquidate or wind up.
 - it is a public benefit organisation;
 - it is a recreational club;
- if it is a partnership:
 - if any of the partners are not natural persons;
 - if any partner is a partner in more than one partnership or;
 - the qualifying turnover of the partnership exceeds R1 million.

2.3.2.4 Conclusion regarding definitions

The following definitions were discussed in the previous points 2.3.1 and 2.3.2:

- general definition of a small business;

- small business corporation;
- small business and;
- micro business.

It is clear from the discussions above that there are various definitions for a small business in the world as well as in our own Income Tax Legislation. It can be concluded that the current definitions of a small business in the Income Tax Act are quite strict which could contribute toward small businesses not complying with these definitions and not benefiting from the reduced tax rates included in the section of the Income Tax Act pertaining to small businesses. Possible changes could be made to make these definitions less strict which will be discussed in more detail in further chapters.

2.3.3 Section 12E of the Income Tax Act

Per section 12E of the Income Tax Act, a person that qualifies as a small business corporation as discussed in 4.3.2.1 will be able to get the following tax relief measures:

- For plant and machinery owned by the person which were brought into use on or after 1 April 2001 and used for the purpose of trading and/or manufacturing, a deduction equal to the cost of such asset shall be allowed in the year that such asset is brought into use;
- For other assets of a small business that qualifies for a deduction under section 11(e) of the Income Tax Act, and which were acquired on or after 1 April 2005, a deduction can be claimed of 50% of the cost of the asset in the first year of assessment in which the asset was brought into use, 30% in the first succeeding year and 20% in the second succeeding year.

It is clear from the above that a small business can claim the cost of its assets over a much shorter period than the normal deduction periods available in section 12C and section 11(e) of the Income Tax Act.

2.3.4 Reduced tax rates for a small business corporation

A small business corporation also qualifies for reduced income tax rates. The tax rates indicated in table 2 below are applicable to small businesses for the period 1 April 2013 to 31 March 2014.

Table 2: Tax rates for small business corporations with a financial year-end between 1 April 2013 and 31 March 2014

Taxable income ('R)	Rate of tax ('R)
0 - 67 111	0% of taxable income
67 112 - 365 000	7% of taxable income above 67 111
365 001 - 550 000	20 852 + 21% of taxable income above 365 000
550 001 and above	59 702 + 28% of taxable income above 550 000

Source: Income Tax Act (58/1962)

In the 2012/2013 tax tables, the 7% threshold for taxable income amounted to R350,000, which now only increased by 4.29% in the 2013/2014 tax table. As noted by Botes and Lester (2012:1), the threshold of R350,000 taxable income is a very small business, and thus the 2013/2014 year threshold of R365,000 is still a very small business. Botes and Lester (2012:1) recommend that a complete tax holiday be given for the first three to five years from the start of a business. They also recommend that SARS should pay a rebate to small businesses for sustainable jobs created during their three to five year existence period, which is normally the growth period of small businesses (Lester & Botes, 2012:1). This will definitely assist small businesses to pay less tax initially and to use their cash flow and income to grow and in future pay taxes at the normal tax rates.

If the small business is owned by a sole proprietor or held in a partnership, the tax rates applicable to individuals will be used to calculate the tax liability of the entity as each partner or individual owner is taxed on the taxable income of the entity in their personal capacity. Table 3 below indicates the tax rates applicable to individuals for the year ending 28 February 2014.

Table 3: Tax rates for individuals with year-end on 28 February 2014

Taxable income ('R)	Rate of tax ('R)
0 - 165 600	18% of taxable income
165 601 - 258 750	29 808 + 25% of taxable income above 165 600
258 751 - 358 110	53 096 + 30% of taxable income above 258 750
358 111 - 500 940	82 904 + 35% of taxable income above 358 110
500 941 - 638 600	132 894 + 38% of taxable income above 500 940
638 601 and above	185 205 + 40% of taxable income above 638 600

Source: Income Tax Act (58/1962)

It is clear from the tax rates included in the above table 3, when compared with those in table 2, that the tax rates applicable to individuals are much higher than those applicable to small business corporations.

2.3.5 Turnover Tax per the Sixth Schedule of the Income Tax Act

Turnover Tax was introduced into the Income Tax Act per the Revenue Law Amendments Act in 2008 which was promulgated on 8 January 2009 (SARS, 2009:1). This amendment came into operation on 1 March 2009 and gave qualifying entities the opportunity to choose between applying the current tax system for income tax, VAT, STC and CGT or this new simplified tax system namely the Turnover Tax system as contained in the Sixth Schedule of the Income Tax Act (SARS, 2009:1).

Cotten (2011:1) stated that SARS brought Turnover Tax into use to simplify the admin burden for small businesses as they only require their turnover figure to calculate their tax liability for the year. This Turnover Tax system is a single tax system which substitutes VAT, normal income tax and CGT and which simplifies the tax calculation for small businesses further (Cotten, 2011:1). For CGT, the entity simply has to include 50% of the amounts received upon disposal of its assets in their turnover when calculating their Turnover Tax for the year (SARS, 2009:1). The administrative burden is also reduced due to the fact that the entity will only have to submit two tax returns per annum if they are registered for Turnover Tax as opposed to the 18 tax returns normally required for normal income tax, VAT and PAYE (Lester & Botes, 2012:1).

The Turnover Tax relief measures per the Sixth Schedule of the Income Tax Act indicates the following tax rates in table 4 for micro businesses for the financial year end of 28 February 2013.

Table 4: Tax rates for micro businesses with a financial year-end between 1 April 2013 and 31 March 2014

Taxable turnover ('R)	Rate of tax ('R)
0 - 150 000	0% of taxable turnover
150 001 - 300 000	1% of taxable turnover above 150 000
300 001 - 500 000	1 500 + 2% of taxable turnover above 300 000
500 001 - 750 000	5 500 + 4% of taxable turnover above 500 000
750 001 and above	15 500 + 6% of taxable turnover above 750 000

Source: Income Tax Act (58/1962)

It is clear from the above paragraphs 2.3.1 to 2.3.5 that there are substantial advantages in utilising the tax relief measures available per section 12E of the Income Tax Act and the Turnover Tax regime in the Sixth Schedule of the Income Tax Act as they contain accelerated deductions, reduced tax rates for income tax and VAT as well as substantially less administrative work. A practical example is discussed in point 2.3.6 below to indicate these advantages.

2.3.6 Practical example to indicate the advantages of applying section 12E and Turnover Tax in relation to the normal income tax for companies

As discussed in points 2.3.1 to 2.3.5 there are accelerated deductions that can be claimed by applying section 12E of the Income Tax Act as well as beneficial tax rates when applying Turnover Tax as per the Sixth Schedule of the Income Tax Act.

Cotten (2012:6) provides a brief summary and comparison of the two major types of income tax relief measures currently available to small businesses. The first type is section 12E of the Income Tax Act if an entity qualifies as a small business corporation. The second type is the Turnover Tax regime for which you can register your entity if the entity complies with the definition of a micro enterprise per the Sixth Schedule of the Income Tax Act (Cotten, 2012:6). Cotten (2012:6) advises small businesses to make sure they use the best suited income tax relief measure, as their profit margins will influence

which option will give relief or place an additional cash flow burden on the business. Tax relief measures for small businesses can therefore contribute towards their growth which would contribute positively to the economy of South Africa by creating more wealth and jobs (Bridges, 2010:268). In turn if the small businesses become large corporate entities, they will be paying more taxes, which will benefit SARS and South Africa as a whole.

A hypothetical small business and its financial figures for the financial years ended on 28 February 2014 and 28 February 2015 are illustrated below.

Financial information for the year ended 28 February 2014:

- Turnover of the entity – R100 000;
- Cost of the non-manufacturing assets purchased in the current year – R5 000;
- Depreciation on non-manufacturing assets purchased in the current year – R1 000. These non-manufacturing assets qualify for a write off period of 5 years per section 11(e) of the Income Tax Act for a normal large businesses not qualifying for section 12E or Turnover Tax;
- Cost of manufacturing assets purchased in the current year – R3 000;
- Depreciation on manufacturing assets purchased in the current year (20% per year) – R600. These manufacturing assets qualify for a deduction of 40% in the year they were purchased per section 12C of the Income Tax Act for normal large business not qualifying for section 12E or Turnover Tax;
- Business expenses (excluding depreciation) – R10 000;
- Net profit before tax – R88 400.

Financial information for the year ended 28 February 2015:

- Turnover of the entity – R100 000;
- Depreciation on non-manufacturing assets purchased in the prior 2014 year – R 1 000. These non-manufacturing assets qualify for a write off period of 5 years per section 11(e) of the Income Tax Act for normal large businesses not qualifying for section 12E or Turnover Tax;
- Depreciation on manufacturing assets purchased in the prior 2014 year (20% per year) – R600. These manufacturing assets qualify for a deduction of 20% in the second year after they were purchased per section 12C of the Income Tax Act for normal large business not qualifying for section 12E or Turnover Tax;

- Business expenses (excluding depreciation) – R10 000;
- Net profit before tax – R88 400.

Table 5 reflects the results of a comparative tax calculation between section 12E, Turnover Tax, individuals' tax and normal corporate income tax at 28% for the financial year ended 28 February 2014:

Table 5: Comparative tax calculation in applying section 12E, Turnover Tax, individuals' tax rates and the normal corporate tax rate of 28%

	Tax per section 12E	Tax per Turnover Tax	Tax per individuals tax rates	Tax at 28%
	R	R	R	R
Net profit before tax	88,400	88,400	88,400	88,400
Plus: Depreciation (non-manufacturing)	1,000	1,000	1,000	1,000
Less: Wear & tear (non-manufacturing)	(2,500)	(1,000)	(1,000)	(1,000)
Plus: Depreciation (manufacturing)	600	600	600	600
Less: Wear & tear (manufacturing)	(3,000)	(1,200)	(1,200)	(1,200)
Taxable income	84,500	87,800	87,800	87,800
Tax liability	1,217	-	15,804	24,584

From the above comparative tax calculations for the 2014 year the following is evident:

- The most beneficial wear and tear rates obtained for non-manufacturing assets is by applying section 12E of the Income Tax Act as 50% of the cost of these assets are claimed in year one, whereas the wear and tear claimed per the other tax rates in section 11(e) of the Income Tax Act is only 20% in year one. It is noted however that for income tax purposes, this accelerated wear and tear is only a timing difference and will thus only have a cash flow impact, as 100% wear and tear can be claimed on all assets specified by SARS, just over a longer period than per section 12E.

- The wear and tear rates obtained for manufacturing assets per section 12E of the Income Tax Act is 100% in year one, whereas the wear and tear rates for the other entities when applying section 12C of the Income Tax Act are only 40% in year one. Thus by applying section 12E the cost of the manufacturing assets are written off by 60% more in year one than when applying the normal rates per section 12C of the Income Tax Act.
- In comparing the tax liability it is clear that it is much more beneficial for an entity to pay income tax either by applying section 12E of the Income Tax Act or the Turnover Tax system. Per section 12E of the Income Tax Act the entity in this example is taxed at 7% on its taxable income as opposed to the 28% per the normal income tax rate for companies. Per Turnover Tax the entity is taxed at 0% which gives a zero tax liability.

Table 6 below reflects the results of a comparative tax calculation between section 12E, Turnover Tax, individuals' tax and normal corporate income tax at 28% for the financial year ended 28 February 2015:

Table 6: Comparative tax calculation in applying section 12E, Turnover Tax, individuals' tax rates and the normal corporate tax rate of 28%

	Tax per section 12E	Tax per Turnover Tax	Tax per individuals tax rates	Tax at 28%
	R	R	R	R
Net profit before tax	88,400	88,400	88,400	88,400
Plus: Depreciation (non-manufacturing)	1,000	1,000	1,000	1,000
Less: Wear & tear (non-manufacturing)	(1,500)	(1,000)	(1,000)	(1,000)
Plus: Depreciation (manufacturing)	600	600	600	600
Less: Wear & tear (manufacturing)	(0)	(600)	(600)	(600)
Taxable income	88,500	88,400	88,400	88,400
Tax liability	1,497	-	15,912	24,752

From the above comparative tax calculations for the 2015 year the following is evident:

- In the year following this first year ended on 28 February 2014 (thus the year ended 28 February 2015), the entity will also still obtain an advantage if it applies section 12E of the Income Tax Act, as wear and tear can be claimed at 30% of the cost of the non-manufacturing assets as opposed to the 20% per section 11(e) if the normal tax rates are applied. This gives an additional 10% wear and tear claim for the entity.
- In the 2015 year there is however no additional advantage regarding the wear and tear on the manufacturing assets purchased in 2014, as the full cost price of the manufacturing assets were already claimed as a tax deduction in 2014.
- In comparing the tax liability it is clear that it is still more beneficial in the second year after purchase of assets for an entity to pay income tax either by applying section 12E of the Income Tax Act or the Turnover Tax system. Per section 12E of the Income Tax Act the entity in this example is taxed at 7% on its taxable income as opposed to the 28% per the normal income tax rate for companies. Per Turnover Tax the entity is taxed at 0% which gives a zero tax liability.

When performing the calculations of the entity's taxable income, it is clear that when applying section 12E of the Income Tax Act and Turnover Tax, a more reduced tax liability is obtained as opposed to the tax liability when applying the normal company income tax rates. It is noted however that the accelerated wear and tear rates per section 12E is only a timing difference and will only impact on the cash flow of an entity. This has a positive impact for small business as the accelerated wear and tear gives them time to find their feet and get established in the early years.

There is however other factors to take into consideration before a small business can decide to register for Turnover Tax or to apply section 12E of the Income Tax Act. These factors will be discussed below when considering other possible advantages and disadvantages when applying section 12E of the Income Tax Act and Turnover Tax.

2.3.7 Other factors impacting on the success of section 12E of the Income Tax Act and Turnover Tax

As illustrated in the hypothetical example set out in point 4.3.6 above, it is clearly advantageous for a small business to apply the reduced tax rates and accelerated wear

and tear rates per section 12E of the Income Tax Act and Turnover Tax. These advantages illustrated above are however purely from applying the Income Tax Act's reduced tax rates and does not take into account other factors that impact the compliance of small businesses with section 12E of the Income Tax Act and Turnover Tax.

Cotten (2011:1) notes that small businesses must make sure of their facts before they register for Turnover Tax as the entity will have to pay taxes based on their turnover even if they do not have any profit for the year. This could put strain on the small business if they do not have the cash flow to pay the taxes (Cotten, 2011:1).

It should also be considered whether the admin costs to comply with section 12E of the Income Tax Act and Turnover Tax is also advantageous. As stated in the SARS Strategic Plan 2012/13 – 2016/17, the current cost of compliance for small businesses are estimated to be R63,328 per annum which remains high even with the current Turnover Tax system in place (SARS, 2013c:33). SARS also notes that the use of current tax concessions has only added to the overall compliance burden for the small business segment (SARS, 2013c:33). Per Botes and Lester (2012:1), the Budget for the 2012/2013 tax years for small business corporations per section 12E of the Income Tax Act, has increased the tax-free threshold to R63,566. When comparing these two figures, the tax compliance cost of R63,328 per annum and the tax-free threshold of R63,566, it seems that a small business corporation will almost just break even. The monetary benefit derived from complying with section 12E of the Income Tax Act is small and it can be debated whether this small tax saving is enough to motivate small businesses to make use of the current tax relief measure per section 12E of the Income Tax Act. Botes and Lester (2012:1) also raise this point when they note that although the Finance Minister, Mr Pravin Gordhan, has given further tax relief in the 2012/2013 budget speech for small businesses, there is still very little incentive for South African small businesses to start up and flourish. Botes and Lester (2012:1) state that although any form of tax relief is always welcome, they are unsure whether the current tax relief measure are sufficient to encourage small businesses to grow at the rate that will effectively stimulate the growth of the South African economy. In the opinion of Botes and Lester (2012:1) Government should practically do more to profile the success and significant job creation achievements of South African entrepreneurs. Such profiling will contribute toward uplifting the South

African entrepreneurial activity and building an entrepreneurial spirit which will directly contribute toward job creation (Lester & Botes, 2012:1).

SARS also noted in their Strategic Plan 2012/13 – 2016/17 that they want to conduct door-to-door visits to small businesses with the goal to develop a database of all the small businesses (SARS, 2013c:33). SARS also wants to collaborate with other government departments to put in place a “one-stop” where the regulatory needs of small businesses can be serviced (SARS, 2013c:33). It is however unsure how long this will take to implement and if this will really benefit small businesses to grow and prosper. In the researcher’s opinion SARS should rather aim to increase the tax relief measures further as contained in section 12E of the Income Tax Act and Turnover Tax, as this will give direct tax relief for small businesses. Two such proposed increased tax reliefs are that SARS could increase the wear and tear rates per section 12E further and/or reduce the tax rates further.

SARS launched a new enhanced company’s income tax return (ITR14) on 4 May 2013 as part of modernisation of corporate income tax (SARS, 2013b:2). The goal of this new enhanced tax return is to reduce the administrative burden further for companies. (SARS, 2013b:2). The new ITR14 now includes questions on the first page that the taxpayer has to answer before the tax return is generated (SARS, 2013a:4). These questions are intended to customise the content of the tax return and thus a simplified and shortened return should be issued for small businesses. For purposes of this new ITR14, SARS has now also included definitions to classify companies in six different categories, namely dormant company, share block company, body corporate, micro business, small business and medium to large business (SARS, 2013b:3).

A micro business is defined as a company, which is not a share block company or body corporate and which has a gross revenue not exceeding R1million and total assets not exceeding R5 million (SARS, 2013b:3). This definition is in essence the same as the definition of a micro business per Turnover Tax in the Sixth Schedule of the Income Tax Act, which makes it easy for the taxpayer to know in which category his business falls.

The definition of a small business per the SARS guide for the new ITR14 is an entity that is classified as a company, with gross income not exceeding R14 million and total assets not exceeding R10 million. The company should also not be classified as a Body Corporate, Share Block Company or Micro Business (SARS, 2013b:4). SARS specifically notes that this definition is only for purposes of generating the income tax return and is not the same as the definition of a small business corporation per section 12E of the Income Tax Act (SARS, 2013b:4). This new and different definition could create confusion for taxpayers as to the requirements they should meet to be classified as a small business corporation.

It is also now a requirement for all small, medium and large businesses to submit signed annual financial statements with their tax return. (SARS, 2013b:3). These signed annual financial statements that has to be submitted has to contain as a minimum requirement an income statement, balance sheet, tax computation and notes to the financial statements (SARS, 2013b:6). The requirement to attach signed financial statements as well as the added requirement of a tax computation to be included in the financial statements, already adds again to the compliance burden of the taxpayer, as not all financial statements automatically include a tax computation. The tax computation is usually done in separate supporting tax schedules once the tax return is being prepared for submission to SARS.

This new ITR14 and the different categories of companies thus aim to create a customised income tax return for each company and specifically aim to reduce the compliance burden on small businesses. It is however still to be determined whether this new ITR14 will in fact issue a more simplistic and shortened tax return for small businesses that will take less time to complete than the previous version of the tax return.

2.4 CONCLUSION

The definitions of a small business as well as the practical example, indicates that from purely applying the current tax relief measures per section 12E of the Income Tax Act and the Turnover Tax system, it is beneficial for an entity to fall within one of the small business definitions. There are however other factors such as the cost of tax compliance that reduces the monetary tax relief gained when applying section 12E of the Income Tax and Turnover Tax. It is thus evident that from a compliance cost and cash flow point of

view it is not necessarily beneficial for small businesses to try to comply with section 12E of the Income Tax Act and Turnover Tax. Further research has been done in the remainder of the study to determine whether the current tax relief measures for small businesses impact positively on the growth of small businesses in South Africa. A questionnaire was also distributed to accountants to obtain their opinion regarding the success of section 12E of the Income Tax Act and Turnover Tax in assisting small business to grow and contribute to the South African economy.

CHAPTER 3

RESEARCH DESIGN AND METHODS

3.1 RESEARCH PARADIGM/PHILOSOPHY

A Research paradigm is defined by Filstead (in Ponterotto, 2005:127-128) as “a set of interrelated assumptions about the social world which provides a philosophical and conceptual framework for the organised study of that world.”

The phenomenon that will be observed throughout the study is whether the current tax relief measures available per section 12E of the Income Tax Act as well as Turnover Tax contribute positively towards the growth of small businesses. This phenomenon amongst small businesses will be observed through a pragmatism research philosophy in which the most important determinant adopted is the research objectives (Teddlie & Tashakkorie, 2008: 3-17).

The data collection techniques most commonly used in this philosophy is by combining mixed or multiple method designs and can be both qualitative and quantitative in nature (Saunders *et al.*, 2009:119).

This specific research paradigm was chosen because the study will be conducted by making use of different method designs which will be discussed later on. The research will be based on the views and experiences of accountants and therefore values will play a significant role in the outcome of the study as it involves the accountants and their clients' money and wellbeing.

3.2 DESCRIPTION OF INQUIRY STRATEGY AND BROAD RESEARCH DESIGN

The study will be performed by combining both empirical as well as non-empirical research designs.

The empirical part of the study will be conducted by means of a survey. According to Saunders *et al.* (2009:144) a survey is a common strategy used in business and

management research. It is used in exploratory and descriptive research. Surveys are a popular means of research as it allows for a large amount of data from a sizeable population in a highly economical way. The survey study allows the researcher to collect quantitative data using descriptive and inferential statistics. The data collected can also be used to suggest possible reasons for particular relationships between variables and to produce models of these relationships.

In this study, a survey will be distributed to the selected population to determine the opinion of accountants regarding the success of section 12E of the Income Tax Act and Turnover Tax. It will also determine the accountants' opinions regarding the contribution of section 12E of the Income Tax Act and Turnover Tax to the growth of small businesses. The data collected by means of the survey will be used to determine whether a causal relationship exists between the growth or failure of small businesses and the success or failure of section 12E and Turnover.

The non-empirical part of the study will exist of two parts namely, a critical review of available literature and a review of secondary data.

Firstly, a critical review will be performed on the literature currently available in respect of the tax relief measures for small businesses per section 12E of the Income Tax Act and Turnover Tax. This research design selected is most suitable as the critical review will be employed to formulate and describe the basic tax relief measures and the advantages thereof for small businesses and their impact on the economic growth of the small businesses (Mouton, 2001:180). The strategy of critical review will also be applied to determine the view of SARS regarding the current tax relief measures contained in section 12E of the Income Tax Act and Turnover Tax. The critical review will determine to what extent the objectives as set out by SARS for section 12E of the Income Tax Act and Turnover Tax have been achieved.

Secondly, the researcher will critically review published literature published by SARS to compare the opinions of the accountants with SARS's view regarding the current small business tax relief measures.

3.3 SAMPLING

The study will be conducted by distributing a questionnaire to a sample of accountants with practices in Pretoria, Gauteng at one SAIPA event held in Pretoria. The reason a sample of accountants in Pretoria was taken is due to the fact that it would be impractical to distribute questionnaires to all accountants in Pretoria or the whole of South Africa due to the large number of accountants registered with SAIPA (Saunders *et al.*, 2009:210). Another reason this one event was selected for the distribution of the questionnaires was due to the fact that it was held in Pretoria, which is the area being researched. This event was also selected as the attendees of the event attended a course relating to audits of trusts which in the knowledge of the researcher should be a topic that will be attended by the same accountants that could give advice on small business tax relief measures. Another reason for distributing the questionnaires to the accountants at this event is that they are part of SAIPA and per the knowledge of the researcher these are the type of accountants that small businesses will consult for accounting and tax advice. Discussions were also held with a few small businesses and they noted that they do consult with their accountants regarding tax matters. This thus indicates that the accountants of small businesses should have an understanding of the tax relief measures available to small businesses in South Africa. The other reason for selecting the sample is that the aim of the study is to obtain various accountants' views and perceptions in general of the success of the tax relief measures available to small businesses, specifically referring to section 12E of the Income Tax Act and Turnover Tax. Based on the researcher's knowledge some of the accountants at this event do not have clients that meet the criteria of a small business corporation per section 12E of the Income Tax Act or a micro enterprise per Turnover Tax. However due to the fact that the study will be targeting accountants that are members of SAIPA and the academic and training requirements they have to meet to belong to SAIPA, it is assumed that these accountants should have a working knowledge of the small business tax relief measures per section 12E of the Income Tax Act and Turnover Tax. All the attendees at the SAIPA event should thus be qualified enough to give meaningful responses to the questionnaire.

This study is also exploratory and only targeted accountants at one SAIPA event in Pretoria. It is thus not intended that the data collected from these accountants should be

extrapolated over the entire population of accountants throughout South Africa (Saunders *et al.*, 2009:213).

When taking into account the research objectives and problem statement, a non-probability sampling was considered to be the most suitable for this study (Saunders *et al.*, 2009:233).

3.4 DATA COLLECTION

The survey will be conducted in the form of a questionnaire. The questionnaires will be distributed to the participants to complete. .

The survey will be used to gather basic data about the opinions of accountants regarding the tax relief measures for small businesses per section 12E of the Income Tax Act and Turnover Tax. This will include data such as the accountants' opinions on the success or failure of these tax reliefs, the impact of these tax reliefs on small businesses, possible suggestions to improve these tax reliefs etc.

The literature and published data that would be used, as guided by the research objectives would be collected via the websites of SARS as well as various electronic databases. The keywords that will be used to search these websites and databases are taxation and small business, taxation and SMME, taxation and micro enterprise, Turnover Tax. The databases that will be used are Proquest, Moneyweb, Emerald, Google Scholar, Ebsco and Sabinet.

3.5 DATA ANALYSIS

In order to comply with the ethical requirements of the research methodology, the participants in the survey will not be required to provide their names or any other personal details by which they might be recognised. The answers to the questionnaire will be captured making use of a Microsoft excel spread sheet in which the raw data will be formulated into usable data which will then be interpreted. Once interpreted, the relevant findings of the questionnaire will be integrated into the literature review.

The relevant publications found for the literature review will be downloaded and perused to ensure the reliability and relevance thereof.

3.6 ASSESSING AND DEMONSTRATING THE QUALITY AND RIGOUR OF THE PROPOSED RESEARCH DESIGN

3.6.1 Survey Research

Survey research refers to any form of descriptive, quantitative research, which in its most restricted meaning involves the acquisition of information about one or more groups of people – perhaps about their characteristics, opinions, attitudes or previous experiences – by asking questions and tabling their answers. The ultimate goal of survey research is to learn about a large population by surveying a sample of that population, thus we might call this approach a descriptive survey or normative survey (Leedy & Ormrod, 2010:187:66)

According to Leedy and Ormrod (2010:187) a survey research is conducted through a series of questions posed by the researcher to willing participants, where after the responses are summarised (with either percentages, frequency counts or more statistical indexes) and from which inferences are drawn about a particular population from the responses of the sample.

3.6.2 What should the researcher consider when conducting a survey research

The researcher should take into consideration when conducting a survey research the following:

3.6.2.1 *Length of the survey*

The length of the survey plays an integral role in the outcome of the survey and the results obtained from it. If the survey is too lengthy, the respondents might get tired which in turn might yield inconsistent results (Leedy & Ormrod, 2010:189).

3.6.2.2 Survey research captures a fleeting moment in time

Leedy and Ormrod (2010:187) stated that by drawing conclusions from one transitory collection of data, the researcher may draw conclusions about the state of affairs over a long period of time. The researcher should note that the data collected is mostly from one sample population at one particular time.

3.6.2.3 Relying on self-reporting data

When conducting a survey research, the researcher should consider that the results rely on self-report data in which people are “telling us what they believe to be true” or “what they think the researcher wants to hear” (Saunders *et al.*, 2009:318).

3.6.2.4 Constructed opinions and attitudes

The researcher should consider that the people’s descriptions of their attitudes and opinions are often constructed on the spot – in some instances the respondents haven’t really thought about a certain issue until the question is posed by the researcher (Saunders *et al.*, 2009:318).

3.6.2.5 Misinterpretation

A problem that might arise during the survey research is that the respondents might misinterpret the facts or the questions. Sometimes, they might even deliberately misinterpret the facts in order to present a favourable impression to the researcher (Leedy & Ormrod, 2010:188).

3.6.3 Questionnaires, Checklists and Rating Scales

A survey research is conducted by making use of questionnaires, either in the form of a checklist or rating scales.

A *checklist* is a list of behaviours, characteristics or other entities that a researcher is investigating. The researcher simply checks whether each item on the list is observed, present, or true, or is not observed, not present or not true (Leedy & Ormrod, 2010:189)

A *rating scale* is more useful when behaviour, attitude or other phenomenon of interest needs to be evaluated. Rating scales were developed in the 1930's to assess people's attitudes (Leedy & Ormrod, 2010:189).

According to Leedy and Ormrod (2010:189), the use of a questionnaire could be advantageous in the sense that the participants can respond to questions with assurance that their responses will be anonymous; thus, they may be more truthful than they would be in a personal interview, especially when addressing sensitive or controversial issues. In the same sentence, it could be just as much of a disadvantage in the sense that the majority of people receiving a questionnaire, might not return them resulting in a low return rate. Those that do return the questionnaire might not necessarily be representative of the original sample selected.

3.7 RESEARCH ETHICS

The main ethical principle to consider as part of the study is the confidentiality of both the identity of the participants of the survey as well as the information which they provided. This ethical principal will be addressed by keeping questionnaires anonymous as well as to only request the participant to answer by way of circling the applicable block to indicate their chosen answer. The relevant participant will sign a consent form where he/she gives the researcher consent to use the information provided by them in the survey as part of the research study. The researcher will provide the participants with a declaration confirming that the information contained in the survey will remain confidential and anonymous.

The data will remain confidential at all times as the questionnaires will be kept safe in the possession of the researcher.

CHAPTER 4

DATA ANALYSIS

4.1 INTRODUCTION

As discussed in the previous chapter a combined research approach was followed to conduct research for this study. This chapter will be a detailed discussion of the responses to the questionnaires. The responses obtained will address all three the research objectives set out in Chapter 1.

Firstly a brief description of the respondents is given. Secondly the respondents' responses to all the questions contained in the questionnaire are discussed after which a conclusion is drawn regarding the three research objectives of this study.

4.2 DEMOGRAPHICS OF THE POPULATION

The population consisted of the attendees at the SAIPA conference held on 14 May 2013 in Pretoria at the Diep-In-Die-Berg Function and Conference Venue. Attendees were both male and female and are members of SAIPA. 50 Questionnaires were handed out and 42 were received back from the attendees at the SAIPA conference. As indicated by the responses to question 1, of these 42 questionnaires received back, 29 (69.05%) were from Pretoria, 3 (7.14%) were from Johannesburg and 10 (23.81%) were from other parts of South Africa. Responses to question 2 indicated that 17 (40.48%) of the respondents had clients falling within the definition of a small business corporation per section 12E of the Income Tax Act or a micro business per Turnover Tax. This indicates that almost half of the respondents do have current working knowledge of section 12E of the Income Tax Act and of the Turnover Tax system as they service clients complying with these tax relief measures. The remaining 25 (59.52%) respondents indicated not to have clients applying these tax relief measures, but due to their profession as professional accountants it is assumed by the researcher that they have a basic knowledge and understanding of the existence and workings of section 12E of the Income Tax Act and Turnover Tax. It is also noted on the SAIPA website that two of the academic requirements to become a member of SAIPA is attendance at an accredited Tertiary Institution for a course that includes

Accounting 3 and Taxation 1 (SAIPA, 2013a). Their opinions regarding section 12E of the Income Tax Act and Turnover Tax are thus still noteworthy.

4.3 OBJECTIVES OF THE QUESTIONNAIRE

The primary objective of the questionnaires was to obtain the opinion of accountants regarding the current tax relief measures available to small businesses and to determine whether these tax reliefs contribute positively towards the growth and success of the small businesses. The questionnaire also addressed the other two research objectives as set out in Chapter 1 being as follows:

- To determine the impact taxes have on the economic success or failure of small businesses and whether small businesses should be treated differently for tax purposes;
- To determine whether the current small business tax relief measures are doing what they are supposed to be doing and achieving the objectives set out when the tax legislation was implemented.

The responses from the respondents will now be discussed in detail.

4.4 NUMBER OF SMALL BUSINESS CORPORATIONS AND MICRO BUSINESSES

Question 3 required the respondents to indicate how many clients they have that qualify as either a small business corporation per section 12E of the Income Tax Act or as a micro business per Turnover Tax. Please refer to table 7 below for the summary of the responses to question 3.

Table 7: Summary of responses to question 3

Question 3: Please give an indication of the number of small business corporations or micro enterprises that your firm has as clients.					
0-25	26-50	51-75	76-100	More than 100	Comment
16	2	1	0	1	20% of the respondents definitely have clients qualifying as

(80%)	(10%)	(5%)	(0%)	(5%)	small businesses and this indicates that they will be able to give informed feedback on the questionnaire. Part of the 80% could also have such clients although they could have indicated that they have no such clients.
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Of the 17 (40.48%) respondents that indicated in question 2 that they have such clients, 16 (80%) indicated that they have 0 to 25 such clients. 2 (10%) Indicated that they have 26 to 50 such clients and 1 (5%) indicated that they have 51 to 75 such clients. Of the respondents, 1 (5%) also indicated that they have more than 100 such clients. None of the respondents indicated that they have 75 to 100 such clients.

4.5 NUMBER OF SMALL BUSINESSES SERVICED BY THE RESPONDENTS THAT CLOSED DOWN

Question 4 posed the question to respondents whether their firm has lost any small business corporation or micro business clients in the last 5 years due to the client having closed down the business. Refer to table 8 below for the summary of the responses for question 4.

Table 8: Summary of responses to question 4

Question 4: Has your firm lost any small business corporations or micro enterprises during the last 5 year due to the fact that they have closed down?			
	Yes	No	Comment
	7 (35%)	13 (65%)	35% of the respondents indicated that they have lost small business or micro business clients due to them closing down. These responses thus indicate that out of this population of respondents, there were small businesses or micro businesses that closed down during the last 5 years.

Only 20 respondents out of the 42 questionnaires (47.62%) received back, responded to this question. Of the respondents, 7 out of the 20 (35%) indicated “Yes”, they have lost clients being small businesses and micro businesses due to them closing down. Of the respondents, 13 out of the 20 (65%) indicated that they did not lose the clients due to their businesses closing down.

These responses thus indicate that out of this population of respondents, there were small businesses or micro businesses that closed down during the last 5 years. The next question, question 5, then required the respondents to indicate how many such small businesses or micro businesses were lost due to the closing down of the business.

Refer to table 9 below for a summary of the responses to question 5.

Table 9: Summary of responses to question 5

Question 5: Please give an indication of the number of these clients that have closed down their businesses.						
	1-25	26-50	51-75	76-100	More than 100	Comment
	12 (92%)	1 (8%)	0 (0%)	0 (0%)	0 (0%)	For question 5 30.95% responded. 92% of the responses confirmed that small businesses and micro businesses did close down as per the knowledge of the accountants. It also indicates that the number that closed down ranges between 1 and 50 which is quite substantial when taking into account that Pretoria alone has 154 accountants registered with SAIPA (SAIPA, 2013b).

For question 5 only 13 respondents out of the sample of 42 questionnaires (30.95%) responded. Of the respondents, 12 (92.31%) indicated that they lost between 1 and 25 small businesses or micro business clients due to having closed down. Only 1 respondent indicated that he has lost between 26 and 50 such businesses due to them closing down.

These responses thus confirmed that small businesses and micro businesses did close down as per the knowledge of the accountants. It also indicates that the number that closed down ranges between 1 and 50 which is quite substantial when taking into account that Pretoria alone has 154 accountants registered with SAIPA (SAIPA, 2013b). Of these 154 accountants registered with SAIPA, 20 accountants (47.62% of 42) indicated that they have lost clients and 13 (30.95% of 42) indicated that they have lost between 1 and 50 such clients. If this was to be extrapolated over the 154 accountants registered with SAIPA in Pretoria, 73.33 would have answered “Yes” to question 4. If the number of entities closing down was to be extrapolated over the 154 accountants registered with SAIPA in Pretoria, 142.16 would have indicated that they have lost between 1 and 25 clients due to the closing down of their businesses.

Refer to table 10 below for a summary of the responses to question 6.

Table 10: Summary of responses to question 6

Question 6: In your opinion was the reason/s for the closure of the business as indicated in questions 4 and 5 above due to:			
	Yes	No	Comment
1. High tax compliance cost.	2 (29%)	5 (71%)	The responses to point 1 regarding high tax compliance cost corresponds with SARS's view that the use of current tax concessions has only added to the overall compliance burden for the small business segment (SARS, 2013d:33). Such high compliance cost could put great strain on small businesses and could lead to their closure.
2. Economic climate.	8 (89%)	1 (11%)	89% of the respondents indicated that the reason for closure of small businesses was due to the economic climate. These responses correspond with the impact the recession had on numerous businesses. Thus although there

			were tax relief measures available to small businesses during the recession, the economic climate still impacted greatly on their finances and closure.
3. Lack of cash flow/ financing.	8 100%	0 (0%)	100% that selected point 3 confirmed that their clients' businesses closed down due to a lack in cash flow. From the responses it seems that in the opinions of the accountants, lack of cash flow still contributed strongly towards the closure of small businesses.
4. Non tax related matters e.g. lack of business knowledge.	6 (60%)	4 (40%)	60% that answered point 4, indicated that the closure of their small business clients could have been due to a lack of knowledge on the business owners' behalf. This could indicate that the last factors mentioned in point 2, point 3 and point 4 are the main contributing factors impacting on the closure of small businesses in the opinion of the accountants.

These responses to point 1 above regarding high tax compliance cost corresponds with SARS's view that the use of current tax concessions has only added to the overall compliance burden for the small business segment (SARS, 2013d:33). Such high compliance cost could put great strain on small businesses and could lead to their closure.

It is well known that in the past 5 years South Africa has experienced an economic recession which impacted numerous industries and businesses as also confirmed by Kganyago (2010) in the article in Accountancy SA. The responses to point 2 above regarding the economic climate contributing towards the closure of the small businesses correspond with the impact the recession had on numerous businesses. 8 out of 9 respondents (88.89%) indicated that the economic climate contributed towards the closure of their small business clients. Thus although there were tax relief measures

available to small businesses during the recession, the economic climate still had an impact on the net profit and liquidation of small businesses. Per the Statistics South Africa (Stats SA) (2013a) report regarding statistics of liquidations and insolvencies in February 2013, it indicates that the total number of compulsory liquidations for companies, closed corporations, individuals and partnerships are as follows in table 7 below (Stats SA, 2013a:5).

Table 11: Total compulsory liquidations of companies, closed corporations, individuals and partnerships

Month	2007	2008	2009	2010	2011	2012	2013
January	12	29	54	5	45	61	3
February	15	15	26	19	26	27	26
March	12	41	10	23	12	39	
April	32	22	41	17	16	4	
May	13	26	26	30	30	3	
June	9	17	20	12	2	14	
July	14	13	37	35	8	1	
August	111	26	49	22	14	63	
September	47	22	2	20	18	58	
October	39	48	17	49	61	21	
November	13	15	12	20	74	18	
December	9	2	1	34	75	8	
Total	326	276	295	284	381	317	

Source: Statistics South Africa, Statistics of liquidations and insolvencies (Preliminary) February 2013

It can be ascertained from table 7 that the number of compulsory liquidations increased from 276 in the 2008 year to a high of 381 in 2012. This clearly indicates that many entities were forced to close down due to the economic climate during the recession and possible other factors.

Point 3 above posed the question whether the small businesses of the respondents that closed down could have been due to lack of cash flow. All 8 respondents (100%) that selected point 3 confirmed that their clients' businesses closed down due to a lack in cash flow. Qabaka (2011:14) stated that the National Treasury of South Africa hoped to improve the cash flow of small businesses by the implementation of the small business tax relief measures which in turn would contribute toward further job creation. From the

responses to point 3 above it seems that in the opinions of the accountants, lack of cash flow still contributed strongly towards the closure of small businesses. This could indicate that although National Treasury aimed to improve the cash flow of small businesses with tax relief measures, these tax relief measures did not necessarily improve the cash flow enough to assist in the survival of the small businesses.

Of the 10 respondents for this question, 6 of the 10 (60%) that answered point 4, indicated that the closure of their small business clients could have been due to a lack of financial knowledge of the business owners. This could indicate that the last factors mentioned in point 2, point 3 and point 4 are the main contributing factors impacting on the closure of small businesses in the opinion of the accountants.

4.6 OPINION OF RESPONDENTS AS TO WHETHER SECTION 12E OF THE INCOME TAX ACT AND TURNOVER TAX MEET THE OBJECTIVES SET OUT BY SARS

Question 7 of the questionnaire posed to the respondents was whether in their opinion, section 12E of the Income Tax Act and Turnover Tax meet the objectives set out by SARS at implementation. Refer to table 12 below for a summary of the responses to question 7.

Table 12: Summary of responses to question 7

Question 7: In your opinion, to what extent does section 12E and Turnover Tax for small business corporations and micro enterprises meet the following objectives:					
	Not at all	To a small extent	To a medium extent	To a large extent	Comment
1. To reduce the administrative/tax compliance burden on small businesses i.t.o:					
1.1 Hours spent;	4 (10%)	18 (44%)	15 (36%)	4 (10%)	It seems that in the opinion of the respondents, this objective was not met to a large extent and possibly more can be done to further reduce the compliance burden for small businesses. It is thus apparent that the high tax
1.2 Cost.	3 (7%)	18 (44%)	15 (37%)	5 (12%)	

					compliance costs impact negatively on small businesses and their chances of success in the opinion of the respondents.
2. To promote entrepreneurship.	9 (22%)	12 (29%)	18 (44%)	2 (5%)	These results indicate that in the opinion of 95.12% of the respondents, this objective was not met at all or only partly met and thus there is still room for improvement regarding this objective.
3. To create an enabling environment for small businesses to survive and grow.	8 (20%)	11 (27%)	21 (51%)	1 (2%)	It is evident that 47% of the respondents are of the opinion that this objective was not achieved fully but only partially and would suggest that possible changes to legislation are required to better achieve this objective.
4. To ensure small businesses pay less tax initially.	5 (12%)	13 (31%)	15 (37%)	8 (20%)	It thus seems that in the opinion of the respondents, this objective was better met than the first three objectives noted above as 57% indicated "to a medium or large extent" and thus could suggest that the current tax rates for small businesses are sufficient.
5. To promote increased investment in assets.	9 (23%)	14 (35%)	16 (40%)	1 (2%)	From these results it is clear that in the opinion of 58% of the respondents, this objective was not fully met and further measures are required to ensure increased investment in assets by small businesses.
6. To increase job creation.	13 (32%)	15 (37%)	11 (27%)	2 (4%)	In the opinion of 31.71% of the respondents this objective was not met at all or only to a small extent. This poses the question of whether section 12E of the

					Income Tax Act and Turnover Tax should be amended with more reduced rates to assist small businesses to grow and thus be able to create more jobs.
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Some of the main objectives as set out by SARS for the implementation of section 12E of the Income Tax Act and Turnover Tax were included in the questionnaire as follows:

- To reduce the administrative/tax compliance burden on small businesses;
- To promote entrepreneurship;
- To create an enabling environment for small businesses to survive and grow;
- To ensure small businesses pay less tax initially;
- To promote increased investment in assets;
- To increase job creation.

For the first objective noted above being a reduction on the compliance burden on small businesses, 18 (43.90%) of the 42 respondents indicated that they feel this objective has only been met to a small extent and 15 (36.59%) indicated that this objective was only met to a medium extent. It seems that in the opinion of the respondents, this objective was not met to a large extent and possibly more can be done to further reduce the compliance burden for small businesses. This corresponds with the findings of SARS that the current tax compliance costs for small businesses are only increased by the tax concessions for small businesses (SARS, 2013d:33). It is thus apparent that the high tax compliance costs impact negatively on small businesses and their chances of success.

For the second objective noted above regarding the promotion of entrepreneurship, 12 of the 42 respondents (29.27%) indicated that in their opinion this objective was only met to a small extent. Of the respondents, 18 (43.90%) indicated that this objective was only met to a moderate extent. Only 2 respondents (4.88%) indicated that in their opinion this objective was met to a large extent, whereas 9 respondents (21.95%) indicated that in their opinion this objective was not met at all. These results indicate that in the opinion of 95.12% of the respondents, this objective was not met at all or only partly met and thus

there is still room for improvement regarding this objective. This corresponds with the opinion of Lester and Botes (2012:1) that the Government should practically do more to profile the success and significant job creation achievements of South African entrepreneurs. Such profiling will contribute toward uplifting the South African entrepreneurial activity and building an entrepreneurial spirit which will directly contribute towards job creation (Lester & Botes, 2012:1).

For the third objective noted in the questionnaire regarding the creation of an enabling environment for small businesses to survive and grow, 11 of the 42 respondents (26.83%) indicated that this objective was only met to a small extent. Of the respondents, 21 (51.22%) indicated it was met to a medium extent and only 1 respondent (2.44%) indicated that it was met to a large extent. Of the respondents, 8 (19.51%) indicated that in their opinion this objective was not met at all. It is thus evident that in the respondents' opinions, this objective was also not achieved fully but only partially and would suggest that possible changes to legislation is required to better achieve this objective.

For the fourth objective regarding less tax to be paid initially by small businesses, 13 of the 42 respondents (31.71%) indicated that this objective was only met to a small extent. Of the respondents, 15 (36.59%) indicated that this was met to a medium extent and 8 respondents (19.51%) indicated that it was met to a large extent. It thus seems that in the opinion of the respondents, this objective was better met than the first three objectives noted above and thus could suggest that the current tax rates for small businesses are sufficient. This does not correspond with the opinions of Botes and Lester (2012:1) that a tax holiday with NIL taxes payable should be instated for small businesses for at least the first three to five years of their existence.

For the fifth objective regarding promotion of increased investment in assets, 9 of the 42 respondents (22.50%) indicated that this objective was not met at all, 14 (35%) indicated it was met to a small extent and 16 (40%) indicated it was met to a medium extent. Only 1 respondent (2.50%) indicated that this objective was met to a large extent. From these results it is clear that in the opinion of the respondents, this objective was not fully met and further measures are required to ensure increased investment in assets by small businesses.

For the sixth objective regarding increased job creation, 13 of the 42 respondents (31.71%) indicated this objective was not met at all. Of the respondents, 15 (36.59%) indicated it was met to a small extent, 11 (26.83%) indicated it was met to a medium extent and only two respondents (4.88%) indicated it was met to a large extent. In the opinion of 31.71% of the respondents this objective was not met at all or only to a small extent. This poses the question of whether section 12E of the Income Tax Act and Turnover Tax should be amended with more reduced rates to assist small businesses to grow and thus be able to create more jobs. It is also noted by Stats SA (2013b) that the current unemployment figure is 25.6%. This figure increased during the past 5 years and indicates that job creation is not occurring as it should or was intended to be (Stats SA, 2013b).

It is clear from the responses to question 7 that the accountants are of the opinion that the objectives as set out by SARS when section 12E and Turnover Tax were implemented are not being met. This also indicates that in their opinion these tax relief measures are not working as they are supposed to be working.

4.7 CONTRIBUTION OF SECTION 12E AND TURNOVER TAX TOWARDS THE GROWTH OF SMALL BUSINESSES

Question 8 of the questionnaire poses the question of whether section 12E of the Income Tax Act and Turnover Tax contribute positively towards the growth of small businesses. Refer to table 13 below for a summary of the responses to question 8.

Table 13: Summary of responses to question 8

Question 8: In your opinion, does section 12E and Turnover Tax contribute positively toward the growth of small businesses?					
	No, not at all	Yes, to a small extent	Yes, to a medium extent	Yes, to a large extent	Comment
	6 (15%)	17 (42%)	18 (44%)	0 (0%)	It thus seems that although 43.90% of the respondents feel

					that the tax relief measures contribute towards the growth of businesses to a medium extent, 56.09% of the respondents, being more than half, feel that these tax relief measures do not contribute towards the growth of small businesses or to a very little extent.
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Of the 42 respondents, 6 (14.63%) indicated that in their opinion it does not contribute towards the growth at all. Of the respondents, 17 (41.46%) indicated that these tax relief measures contribute towards the growth of small businesses to a small extent and 18 (43.90%) indicated to a medium extent. None of the respondents selected the answer that these tax relief measures contribute towards the growth of small businesses to a large extent.

It seems that although 43.90% of the respondents feel that the tax relief measures contribute towards the growth of businesses to a medium extent, 56.09% of the respondents, being more than half, feel that these tax relief measures do not contribute towards the growth of small businesses or to a very little extent. In the opinion of the accountants, these tax relief measures are not effective for the growth of small businesses which also impacts the growth of the economy as a whole. This ineffectiveness of the tax relief measures could thus also impact negatively on the economic success of businesses and contribute towards the closure of businesses. It should be considered by National Treasury to revisit these tax relief measures and perform further research as to what type of tax relief measures would contribute positively towards the growth of small businesses.

4.8 NEGATIVE INFLUENCES ON SECTION 12E AND TURNOVER TAX

For question 9, refer to table 14 below for a summary of responses to this question.

Table 14: Summary of responses to question 9

Question 9: Do you feel that the following might have a negative influence on section 12E and Turnover Tax i.t.o. contributing towards the growth of small businesses?				
	Yes	No	Unsure	Comment
1. Lack of knowledge on the part of small business owners in that they were not aware of section 12E and Turnover Tax.	31 (76%)	7 (17%)	3 (7%)	75.61% indicated that in their opinion the lack of knowledge on the part of small business owners had a negative impact on section 12E of the Income Tax Act and Turnover Tax. This could be an indication that SARS could do more to educate the public and specifically also accountants assisting clients with tax matters regarding tax relief measures available.
2. SARS did not create enough awareness regarding the existence of section 12E and Turnover Tax.	29 (71%)	9 (22%)	3 (7%)	From the responses of the accountants on point 1 and point 2 of question 9 it however seems as if the current free training presented by SARS is not enough to educate taxpayers and small business owners sufficiently.
3. The reduced tax rates contained in section 12E and Turnover tax are not sufficient.	18 (45%)	11 (27.5%)	11 (27.5%)	45% of the respondents indicated that in their opinion the reduced tax rates contained in section 12E of the Income Tax Act and Turnover Tax are not sufficient. It could thus be ascertained that in the opinion of the accountants, SARS should possibly revise the current tax legislation to be more beneficial to small businesses.
4. The admin/ compliance cost regarding section 12E and Turnover Tax are too excessive.	16 (40%)	12 (30%)	12 (30%)	For point 4, 40% of the respondents indicated that in their opinion, the high compliance cost regarding section 12E of the Income Tax Act and Turnover Tax has a negative influence on these tax relief measures in terms of contributing

				toward the growth of small businesses.
5. The criteria to qualify as a small business corporation per section 12E or as a micro enterprise per Turnover Tax are too strict.	18 (45%)	14 (35%)	8 (20%)	The responses for point 5 indicate that almost half of the respondents feel the criteria is too strict and this could suggest that SARS should possibly revise the qualifying criteria for section 12E of the Income Tax Act and Turnover Tax.

For point 1 above 31 of the respondents (75.61%) indicated that in their opinion the lack of knowledge on the part of small business owners had a negative impact on section 12E of the Income Tax Act and Turnover Tax. This could be an indication that SARS could do more to educate the public and specifically accountants assisting clients with tax matters regarding tax relief measures available. This also links with point 2 in which 29 of the respondents (70.73%) indicated that SARS did not create enough awareness regarding the existence of section 12E of the Income Tax Act and Turnover Tax.

As indicated in the SARS Annual Report for 2011/2012, SARS (2012:43) conducted 4 185 free workshops and seminars for the period 1 April 2011 to 31 March 2012. These seminars and workshops were attended by 65 100 taxpayers and the topic of small business turnover tax was also addressed at some of these workshops and seminars (SARS, 2012:43). It thus seems that SARS is aware of the fact that taxpayers should be educated regarding the various tax types SARS administers and they have taken steps to present training to taxpayers. From the responses of the accountants on point 1 and point 2 of question 9 it however seems as if the current free training by SARS is not enough to educate taxpayers and small business owners sufficiently.

Regarding point 3 of question 9, 18 of the respondents (45%) indicated that in their opinion the reduced tax rates contained in section 12E of the Income Tax Act and Turnover Tax are not sufficient. This corresponds with the views of Lester and Botes (2012:1) who also feels that the current reduced tax rates are not reduced enough to give sufficient advantage to small businesses to grow. It could thus be ascertained that in the opinion of the accountants, SARS should possibly revise the current tax legislation to be more beneficial to small businesses.

For point 4 of question 9, 16 of the respondents (40%) indicated that in their opinion, the high compliance cost regarding section 12E of the Income Tax Act and Turnover Tax has a negative influence on these tax relief measures in terms of contributing towards the growth of small businesses. This corresponds with SARS's view set out in the Strategic Plan for 2013/14 – 2017/18 that they aim to simplify and improve the systems and processes currently in use by small businesses (SARS, 2013d:34). SARS's objective with this is to reduce the compliance costs and burden to a point where these factors are no longer the factors limiting small businesses to grow and comply (SARS, 2013d:34).

Point 5 of question 9 resulted in 18 of the respondents (45%) indicating that in their opinion the criteria to qualify as a small business corporation per section 12E of the Income Tax Act or as a micro business per Turnover Tax are too strict. Of the respondents, 14 (35%) indicated that in their opinion the criteria is not too strict and 8 of the respondents (20%) were unsure. The responses for point 5 indicate that almost half of the respondents feel the criteria is too strict and this could suggest that SARS should possibly revise the qualifying criteria for section 12E of the Income Tax Act and Turnover Tax.

Point 6 of question 9 requested the respondents to indicate if there are any other negative influences on section 12E of the Income Tax Act and Turnover Tax to contribute to the growth of small businesses. The following responses were received:

- Why pay tax on turnover when you can pay on a smaller profit or even claim a loss?
- It is difficult to get information and documents through the SARS website;
- The fact that returns are submitted manually is frustrating. It should all be done on e-filing;
- The taxpayer might be paying more when applying Turnover Tax;
- The taxpayers do not know how section 12E and Turnover Tax works and they do not necessarily have all the expenses e.g. fixed assets on which they can claim the increased wear and tear rates;
- Turnover Tax saves the taxpayer administrative time and compliance costs, but the taxpayer still has to pay taxes;
- Not all taxpayers have a registered CC or company and thus cannot qualify as a small business corporation per section 12E of the Income Tax Act.

It is clear from the responses of the accountants above, that there are quite a number of other factors that in their opinion impact negatively on section 12E of the Income Tax Act and Turnover Tax to contribute towards the growth of small businesses. These factors should also be considered for possible future improvements that could be made by SARS to assist in improving section 12E of the Income Tax Act and Turnover Tax to contribute towards the growth of small businesses.

4.9 SUGGESTIONS FOR IMPROVEMENTS

Question 10 asked the accountants for suggestions to improve the success of section 12E of the Income Tax Act and Turnover Tax. The following responses were received:

- Improved marketing of the current tax relief measures available to small businesses;
- More tax rebates should be given to small businesses;
- SARS should improve their administration regarding tax matters of small businesses;
- The SARS e-filing submissions for turnover tax should be improved to make it more accessible and easier for taxpayers to use;
- SARS should perhaps consider to increase training of their staff on the details involved in section 12E of the Income Tax Act and Turnover Tax as it has been experienced by the accountants that the SARS consultants are often not able to answer queries regarding these tax relief measures;
- More reduced tax rates should be implemented for section 12E of the Income Tax Act and Turnover Tax;
- The capping amount for Turnover Tax which is currently at R1million should be increased significantly.

The above suggestions for improvements to section 12E of the Income Tax Act and Turnover Tax could be used for possible recommendations of improvements to SARS and future research areas. This is discussed in more detail in chapter 6.

4.10 CONCLUSION

From the responses received from the accountants, it is clear that in their opinion there are quite a few improvements that could be made to section 12E of the Income Tax Act and Turnover Tax to make it more effective and beneficial for small businesses. The accountants' responses also indicated that taxes could have an impact on the economic failure of small businesses due to high tax costs, high tax compliance cost and negative influences on the cash flows of businesses. These negative influences could then attribute to the closure of businesses. The responses obtained also support the research objective regarding whether small businesses should be treated differently for tax purposes. Due to the nature of small businesses and their cash flow needs to sustain growth, these businesses should be treated differently for tax purposes.

Furthermore the responses from the accountants also indicated that section 12E and Turnover Tax are not necessarily meeting the objectives set out when the tax legislation was brought into use. It thus suggests that in the opinion of the accountants, improvements should be made to section 12E and Turnover Tax to meet the objectives set out for these tax relief measures.

The recommendations and areas for future research as ascertained from the responses to the questionnaire are discussed in more detail in chapter 6.

CHAPTER 5

SARS OBJECTIVES FOR SECTION 12E AND TURNOVER TAX

5.1 INTRODUCTION

In this chapter the objectives set out by SARS when section 12E of the Income Tax Act and Turnover Tax was implemented, will be discussed. The second research objective for this study in chapter 1 will also be addressed to determine whether the objectives for section 12E and Turnover Tax have been met.

5.2 SARS OBJECTIVES FOR SECTION 12E OF THE INCOME TAX ACT AND TURNOVER TAX

As included in the questionnaire used for this research study, the following are some of the main objectives as set out by SARS for section 12E of the Income Tax Act and Turnover Tax:

- To reduce the administrative/tax compliance burden on small businesses;
- To promote entrepreneurship;
- To create an enabling environment for small businesses to survive and grow;
- To ensure small businesses pay less tax initially;
- To promote increased investment in assets;
- To increase job creation.

These objectives are discussed in more detail below.

5.2.1 To reduce the administrative/tax compliance burden on small businesses

This first objective was noted by the previous Minister of Finance, Mr Trevor Manuel (2002:20), in the 2002 budget speech in which he stated the following. “It is common knowledge that the burden of tax and regulatory compliance impacts adversely on small businesses. Administrative procedures and the existing penalty provisions will be reviewed

with the aim of simplifying tax compliance for small businesses” (Manual, 2002:20). It was also noted in the SARS Strategic Plan for 2009 to 2012 that small businesses had the option to register for Turnover Tax from 1 March 2009 which will be reducing their compliance costs by a reduction in administrative record keeping (SARS, 2009b:47). SARS also noted in their Annual Report for 2009-2010 that Turnover Tax was implemented to be simpler and more cost effective for those small businesses for which the normal income tax requirements are too expensive to comply with (SARS, 2010:41).

It is however debatable as to whether the introduction of section 12E of the Income Tax Act and Turnover Tax in actual fact decreased the tax compliance burden on small businesses. SARS stated in their Strategic Plan for 2013/14 to 2017/18 that current tax compliance costs for small businesses are only increased by the tax concessions for small businesses (SARS, 2013d:33). SARS also stated in this Strategic Plan that there are currently mixed signals regarding the success of small business tax relief measures as the compliance by small businesses are still declining (SARS, 2013d:43). In SARS’s opinion, this continuing decline in the tax compliance of small businesses is partly due to high compliance costs (SARS, 2013d:43). It thus gives an indication that although SARS aimed to reduce the tax compliance costs for small businesses with the current tax relief measures, this objective has not been fully met yet, and more can still be done to reduce the compliance burden.

5.2.2 To promote entrepreneurship

The second objective regarding the promotion of entrepreneurship was noted in the media release by SARS (2009c:1) on 4 March 2009. SARS stated that this new initiative namely Turnover Tax, was implemented to promote entrepreneurship (SARS, 2009c:1).

SARS thus aimed to promote entrepreneurship by making it easier for small businesses to pay taxes by registering for Turnover Tax. It is however unsure whether this objective has been met as Lester and Botes (2012:1) are of the opinion that Government should do more to profile the success of entrepreneurs in South Africa with regards to their significant achievements and job creation. Lester and Botes are of the opinion that if Government do

this it will contribute towards an upliftment in South African entrepreneurial activity and will build the entrepreneurial spirit (Lester & Botes, 2012:1).

From the opinion of Lester and Botes (2012:1) it thus seems that the objective of SARS to promote entrepreneurship with these tax relief measures in section 12E of the Income Tax Act and Turnover Tax has not been met in full.

5.2.3 To create an enabling environment for small businesses to survive and grow

The third objective set out by SARS (2009:1) was also noted in the media release on 4 March 2009. The media release stated that SARS's aim with the implementation of the new Turnover Tax system is to create an enabling environment for small businesses to survive and grow (SARS, 2009c:1).

In the SARS Strategic Plan for 2013/14 to 2017/18, SARS noted that they want to simplify the processes and tax compliance for small businesses to ensure the processes are not inhibiting the compliance and growth of these businesses any longer (SARS, 2013d:33). It thus seems that although in 2009 it was already the aim of SARS to create an enabling environment for small businesses to survive and grow. This however has not been the case. Turnover Tax and section 12E of the Income Tax Act has reduced some of the compliance burden since their implementation but it has not had the impact to the extent desired by SARS.

It is however clear that SARS is looking into this through their 2013/14 to 2017/18 Strategic Plan to ensure this objective is met in full in the near future (SARS, 2013d:32).

5.2.4 To ensure small businesses pay less tax initially

This fourth objective of SARS to ensure small businesses pay less tax initially was noted in the 2000 budget speech (SARS, 2000:20). In this budget speech it was stated that a reform in the tax structures had occurred to bring the South African tax structures more in line with international norms (SARS, 2000:5). These reforms included the introduction of section 12E of the Income Tax Act which stated that if an entity qualifies as a small

business corporation per section 12E, they will pay 15% tax on the first R100,000 taxable income of the business instead of the 30% of all taxable income all other companies had to pay at that time (SARS, 2000:20).

This implementation of section 12E of the Income Tax Act contributed towards small businesses paying less tax initially. SARS noted in the 2000 budget speech that they believe this new tax relief measure for small businesses will contribute towards the SME sector's development and thus generate active business income (SARS, 2000:20).

It is however unsure whether the cost of compliance for section 12E outweighs the benefit obtained when applying section 12E for a small business. The SARS Strategic Plan 2012/13 – 2016/17 stated that the current cost of compliance for small businesses is estimated at R63,328 per annum (SARS, 2013c:33). The budget for the 2012/2013 tax years for small business corporations increased the tax-free threshold to R63,566 (Lester & Botes., 2012:1). When taking into account these two figures, it is clear that a small business will just break even when incurring the tax compliance cost for section 12E of the Income Tax Act and the tax-free threshold.

From these figures it seems that although in theory a small business corporation pays less tax initially, in practice, the compliance cost almost outweighs the reduced tax rate benefit.

5.2.5 To promote increased investment in assets

This objective was noted in the SARS budget speech of 2001. It was stated by SARS (2001:5) that the aim of this budget speech is to encourage increased investment in assets (SARS, 2001:5). The budget speech also stated that further support for small businesses was shown by introducing a new accelerated wear and tear rate (SARS, 2001:5). This accelerated wear and tear rate stated that a small business corporation can deduct the full cost of manufacturing assets in the first year of the acquisition. This was implemented by SARS with the aim that small businesses will invest more in assets.

It is however unsure whether this objective has in actual fact been met and whether small businesses did invest more in assets. Currently there are no data available from SARS to indicate whether this objective has been met.

5.2.6 To increase job creation

The last objective noted was that SARS aimed to increase job creation by implementing section 12E of the Income Tax Act and Turnover Tax. This objective was noted in the 2001 budget speech in which SARS stated that the Government continues to support small businesses which are key role players in job creation (SARS, 2001:14). It was also noted by SARS in the 2001 budget speech that one of the main priorities of SARS is job creation (SARS, 2001:1). SARS also stated in the 2000 budget speech, in which section 12E of the Income Tax Act was first announced, that small businesses are very important for the employment potential and growth of the South African economy (SARS, 2000:20).

As previously discussed in this research study, small businesses play a very significant role in job creation (Berry, 2007:1). The current unemployment figure per Stats SA for the second quarter of 2013 is however 25.6% and the increase in unemployment is 0.4% (Stats SA, 2013b). This could indicate that although SARS's aim with the implementation of section 12E of the Income Tax Act and Turnover Tax was to increase job creation, the job creation did not increase as expected. This objective was thus not met. This could be attributed to the economic recession that occurred during 2008, but it is still an area that should be further investigated by Government to ensure small businesses are supported to enable job creation. One such type of support that can be given to small businesses is enhanced tax relief measures. Another incentive could be tax rebates to small businesses for the employment of a specified number of employees and/or employees meeting a specified set of requirements per a scale for different population groups.

5.3 CONCLUSION

From the above discussion it is clear that not all the objectives have been met to the extent SARS originally had in mind. Although some of the objectives have been met partially,

there are still a lot of room for improvement, which was also confirmed by SARS in their Strategic Plan for 2013/14 to 2017/18 (SARS, 2013d:33).

CHAPTER 6

CONCLUSION

6.1 INTRODUCTION

The overall objective of this study was to review the effectiveness of small business tax relief measures in South Africa. The tax relief measures for small businesses which were researched in this study were limited to section 12E of the Income Tax Act and Turnover Tax. Firstly in chapter 2, the tax legislation pertaining to section 12E and Turnover Tax were reviewed and discussed to determine the qualifying criteria for small businesses to be able to apply these tax relief measures. Chapter 2 also included a review of literature of previous studies done on this topic as well as other publications regarding the tax relief measures. Chapter 3 and 4 deals with the questionnaire that was handed out to a group of accountants to determine their opinions regarding the current tax relief measures available to small businesses and whether these tax reliefs contribute positively towards the growth and success of small businesses. Chapter 5 discussed the objectives set out by SARS for the small business tax relief measures contained in section 12E of the Income Tax Act and Turnover Tax.

This chapter summarises the findings based on the literature review as well as the responses received in the questionnaires. A conclusion is also drawn regarding the three research objectives set out in chapter 1, areas for possible improvement to legislation are noted and finally potential areas for future research are discussed.

6.2 CONCLUSION REGARDING RESEARCH OBJECTIVES

The four research objectives as set out in chapter 1 are as follows:

- To determine the impact taxes have on the economic success or failure of small businesses and whether small businesses should be treated differently for tax purposes;

- To determine whether the current small business tax relief measures are achieving the objectives set out when the tax legislation was implemented;
- To determine the opinion accountants have on the current tax relief measures available to small businesses and whether these tax reliefs contribute positively towards the growth and success of the small businesses;
- To determine the impact of small business tax incentives on the cash flow of small businesses.

Regarding the first research objective, the research in this study indicates that taxes do have an impact on the economic success or failure of small businesses. This was found to be true based on the responses received from the accountants on questions 4, 5, 6 and 8. This was also confirmed by Lester and Botes (2012:1) and Qabaka (2011:14). It is clear that small businesses should be treated differently for tax purposes, as high taxes could contribute towards the closure of a small business as its cash flow is put under pressure.

Regarding the second research objective, this research found that the current tax relief measures per section 12E of the Income Tax Act and Turnover Tax are not necessarily achieving its objectives. This is supported by the responses from the accountants on question 7, where the respondents indicated that in their opinion, the objectives set out by SARS are not met. This is also supported by the statements made by SARS in their Strategic Plan for 2013/14 – 2017/18 in which they indicated that the current processes for small businesses are still to be more simplified and streamlined to ensure that tax compliance costs and administrative burden are not inhibiting the growth and compliance of small businesses (SARS, 2013d:33).

For the third and fourth objectives, the opinions of accountants on the current tax relief measures for small businesses indicated that more than half (56.09%) of the respondents are of the opinion that the current tax relief measures are not contributing positively toward the growth of small businesses. This was supported by the answer obtained from question 8 in the questionnaire. Question 6 of the questionnaire indicated that all 8 respondents that answered the question are of the opinion the lack of cash flow impacted on the closure of their small business clients. This was also supported by Qabaka (2011:15), which stated that although the Government hoped to improve the cash flows of small

businesses with the current tax relief measures, in his opinion, South Africa's current tax system is so biased against small businesses that any tax relief is negligible (Qabaka, 2011:15). It can be concluded that in the opinion of the respondents as well as current literature reviewed, the current tax relief measures are not contributing positively toward the growth or cash flows of small businesses.

6.3 AREAS FOR POSSIBLE IMPROVEMENT TO CURRENT TAX RELIEF MEASURES

It can be ascertained from the discussions in the previous chapters that there are a few areas in the current tax legislation for section 12E of the Income Tax Act and Turnover Tax that needs attention. Below is a summary of some suggested improvements that the researcher identified during the study and from the responses on the questionnaire.

- The shareholding requirements for small business corporations per section 12E of the Income Tax Act should be made less strict;
- The current restrictions on personal service providers in section 12E of the Income Tax Act should be lessened;
- Improved marketing of the current tax relief measures available to small businesses;
- More tax rebates should be given to small businesses;
- More reduced tax rates should be implemented for section 12E of the Income Tax Act and Turnover Tax;
- The capping amount for Turnover Tax which is currently at R1million should be increased.

6.4 AREAS FOR POSSIBLE FUTURE RESEARCH

This study was limited to the opinions of accountants in Pretoria only. For a more representative view this study could be expanded to obtain the opinions of accountants nationally.

This study was limited to tax relief measures included in section 12E of the Income Tax and Turnover Tax. Further research could be done on other tax relief measures also

available for small businesses in South Africa and their effectiveness to positively influence small businesses.

Research could be done regarding the possible expectation gap between the taxpayers and SARS regarding the current tax relief measures available to small businesses. It is possible that the expectations of taxpayers and SARS differ regarding small business tax relief measures.

Further research could possibly be done as to the small business tax relief measures currently available in other developing countries similar to South Africa. Such research could assist South Africa to benchmark their small business tax relief measures against other countries' tax relief measures and this could assist South Africa to improve their current small business tax relief measures.

6.5 CONCLUSION

This study researched the effectiveness of the current tax relief measures for small businesses in South Africa and obtained the opinions of accountants in Pretoria to this effect.

It is clear from the study that the current small business tax relief measures contained in section 12E of the Income Tax Act and Turnover Tax could contribute significantly towards the growth and success of small businesses. These tax relief measures are currently not meeting all the objectives as set out by SARS. The positive contribution of these tax relief measures towards the growth of small businesses are limited and could be further improved to ensure all objectives are met and benefits for small businesses are increased.

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APPENDIX A

- Data collection instrument -

Questionnaire

Respondent number				
For office use only V1	1	2	3	4

- Perceptions regarding small business tax relief measures survey -

Dear respondent

Thank you for your willingness to complete this survey. The purpose of the survey is to determine your perceptions regarding the small business tax relief measures per section 12E of the Income Tax Act and Turnover Tax. The survey should not take more than 10 minutes to complete. This is an anonymous and confidential survey. You cannot be identified and the answers you provide will be used for research purposes only.

Please answer all the questions. There are no right or wrong answers. We are interested in understanding your perceptions regarding small business tax relief measures in South Africa.

Q1. Please indicate where your firm is situated:

Pretoria	1
Johannesburg	2
Other	3

For office use only				
V2	<input type="checkbox"/>	5		

Q2. Do you have clients that are registered as a small business corporation per section 12E or as a micro enterprise for purposes of Turnover Tax? If your answer to this question is "No", please proceed to question 7.

Yes	1
No	2

For office use only				
V3	<input type="checkbox"/>	6		

Q3. Please give an indication of the number of small business corporations or micro enterprises that your firm has as clients.

0-25	26-50	51-75	76-100	More than 100
1	2	3	4	5

For office use only				
V4	<input type="checkbox"/>	7		

Q4. Has your firm lost any small business corporations or micro enterprises during the last 5 year due to the fact that they have closed down?

Yes	1
No	2

For office use only				
V5	<input type="checkbox"/>	8		

Q5. Please give an indication of the number of these clients that have closed down their businesses.

1-25	26-50	51-75	76-100	More than 100
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For office use only				
V6	<input type="checkbox"/>	9		

1	2	3	4	5
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Q6. In your opinion was the reason/s for the closure of the business as indicated in questions 4 and 5 above due to:

			For office use only	
1. High tax compliance cost	Yes	No	V7	10
	1	2		
2. Economic climate.	Yes	No	V8	11
	1	2		
3. Lack of cash flow/ financing.	Yes	No	V9	12
	1	2		
4. Non tax related matters e.g. lack of business knowledge.	Yes	No	V10	13
	1	2		

Q7. In your opinion, to what extent does section 12E and Turnover Tax for small business corporations and micro enterprises meet the following objectives:

	Not at all	To a small extent	To a medium extent	To a large extent	For office use only	
1. To reduce the administrative/tax compliance burden on small businesses i.t.o:						
a. Hours spent;	1	2	3	4	V11	14
b. Cost.	1	2	3	4	V12	15
2. To promote entrepreneurship.	1	2	3	4	V13	16
3. To create an enabling environment for small businesses to survive and grow.	1	2	3	4	V14	17
4. To ensure small businesses pay less tax initially.	1	2	3	4	V15	18
5. To promote increased investment in assets.	1	2	3	4	V16	19
6. To increase job creation.	1	2	3	4	V17	20

Q8. In your opinion, does section 12E and Turnover Tax contribute positively toward the growth of small businesses?

No, not at all	Yes, to a small extent	Yes, to a medium extent	Yes, to a large extent
1	2	3	4

For office use only	
V18	<input type="text"/> 21

Q9. Do you feel that the following might have a negative influence on section 12E and Turnover Tax i.t.o. contributing toward the growth of small businesses?

	Yes	No	Unsure	For office use only
1. Lack of knowledge on the part of small business owners in that they were not aware of section 12E and Turnover Tax.	1	2	3	V19 <input type="text"/> 22
2. SARS did not create enough awareness regarding the existence of section 12E and Turnover Tax.	1	2	3	V20 <input type="text"/> 23
3. The reduced tax rates contained in section 12E and Turnover tax are not sufficient.	1	2	3	V21 <input type="text"/> 24
4. The admin/ compliance cost regarding section 12E and Turnover Tax are too excessive.	1	2	3	V22 <input type="text"/> 25
5. The criteria to qualify as a small business corporation per section 12E or as a micro enterprise per Turnover Tax are too strict.	1	2	3	V23 <input type="text"/> 26
6. Other negative influences. Please specify in the blocks below:				
6.1				V24 <input type="text"/> 27

	Yes	No	Unsure	For office use only
6.2				V25 <input type="checkbox"/> 28

Q10. Do you have any suggestions to improve the success of section 12E and Turnover Tax?
Please provide an example/s in the space provided below.

	For office use only
1.	V26 <input type="checkbox"/> 29
2.	V27 <input type="checkbox"/> 30
3.	V28 <input type="checkbox"/> 31
4.	V29 <input type="checkbox"/> 32

**Thank you for completing the survey.
We appreciate your assistance.**

APPENDIX B
- Informed consent form -



**Informed consent for participation in an academic
research study**

Dept. of Taxation

**REVIEW OF SMALL BUSINESS TAX RELIEF MEASURES IN SOUTH
AFRICA**

Research conducted by:

Mrs. J.A. Stols (24044483)

Cell: 076 125 0459

Dear Respondent

You are invited to participate in an academic research study conducted by Jeanné Stols, a Masters student from the Department of Taxation at the University of Pretoria.

The purpose of the survey is to determine your perceptions regarding the small business tax relief measures per section 12E of the Income Tax Act and Turnover Tax.

Please note the following:

- This study involves an anonymous survey. Your name will not appear on the questionnaire and the answers you give will be treated as strictly confidential. You cannot be identified in person based on the answers you give.
- Your participation in this study is very important to us. You may, however, choose not to participate and you may also stop participating at any time without any negative consequences.
- Please answer the questions in the attached questionnaire as completely and honestly as possible. This should not take more than 10 minutes of your time
- The results of the study will be used for academic purposes only and may be published in an academic journal. We will provide you with a summary of our findings on request.
- Please contact my supervisor, Mr Karl Homeier, email: khomeier@eqstra.co.za if you have any questions or comments regarding the study.

Please sign the form to indicate that:

- You have read and understand the information provided above.
- You give your consent to participate in the study on a voluntary basis.

Respondent's signature

Date