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- Mr. Richard Chauke; and
- my wife, Maria, and our sons Phenyo and Theto, for their continual support, encouragement and patience. Thank you.
ABSTRACT

A CRITICAL COMPARISON OF TAX INCENTIVES FOR SMALL, MEDIUM AND MICRO ENTERPRISES BETWEEN SOUTH AFRICA AND AUSTRALIA

by

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The South African Revenue Service (SARS) introduced tax incentives for the small, medium and micro enterprises (SMMEs) in 2001. These incentives were introduced to assist small business in stimulating economic activity, creating jobs and alleviating poverty.

This policy decision is not unique to South Africa. Many other countries offer incentives to small businesses for a variety of reasons, which may differ from country to country. However, it is generally understood that small businesses often face challenges which require the State to intervene in the form of tax incentives.

South Africa operates on a global economic platform. It is imperative that its efforts are comparable against those of its counterparts so that it can assess its situation and be able to channel resources in the right direction.

This study uses a qualitative systematic literature review to compare the tax incentives offered to SMMEs in South Africa and Australia. Australia has been chosen because it is a developed country and also because it has a mature and simplified legislation.

The findings of this study show that South Africa has provided good incentives, particularly in the area of attracting small businesses into the tax base but once these small
businesses are in the base, there is nothing to ensure that they grow. On the other hand, Australia has not done much to bring small businesses into the tax base, but it provides good incentives, sufficient to enable business growth for those already in the system.

One of the challenges faced by many small businesses is cash flow resources. This study has found that Australia’s tax incentives empower small businesses in the area of cash flow, as compared with the situation in South Africa.

Future research studies should investigate the extent to which the respective small businesses are aware of the tax incentives available to them. That is, it must be established how far each country has gone in ensuring that small businesses are familiar with all the incentives at their disposal.

Key words:

tax incentive
small medium and micro enterprises
taxation
OPSOMMING

‘N KRITIESE VERGELYKING VAN BELASTINGVOORDELE VIR KLEIN, MEDIUM EN MAKRO-ONDERNEMINGS TUSSEN SUID AFRIKA EN AUSTRALIA

deur

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Die Suid-Afrikaanse Inkomstediens (SAID) het belastingaansporings skemas vir die klein, medium en makro-ondernemings (KMMOs) in 2001 ingestel. Hierdie aansporings is ingestel om die klein besighede te help om ekonomiese aktiwiteite te stimuleer, werk te skep, asook om armoede te verlig.

Hierdie beleidsbesluit is nie uniek aan Suid-Afrika nie. Menige ander lande bied aansporings aan die klein ondernemings vir ‘n verskeidenheid van redes. Alhoewel hierdie redes kan verskil van land tot land, word dit algemeen verstaan dat klein ondernemings dikwels uitdagings ervaar wat vereis dat die staat ingryp in die vorm van belasting-aansporings.

Suid-Afrika werk in ‘n wêreldwye ekonomiese platform. Dit is noodsaaklik dat Suid-Afrika se pogings met die van sy eweknieë vergelyk word om sodoende die huidige situasie te evalueer en in staat te wees om hulpbronne in die regte areas beskikbaar te stel.

Hierdie studie maak gebrug van ‘n kwalitatiewe sistematiese literatuur oorsig om die belastingaansporings in beide Suid-Afrika en Australië vir KMMO’s te vergelyk. Australië is
gekies weens die feit dat dit ’n ontwikkelde land is en ook omdat dit oor goed ontwikkelde en eenvoudige wetgewing beskik.

Die bevindinge van hierdie studie toon dat Suid-Afrika goeie belastingaansporings het, veral op die gebied om die klein ondernemings in die belastingbasis in te trek, maar wanneer hierdie klein ondernemings in die basis is, is daar niks in plek om te verseker dat hulle verder groei nie. Aan die ander kant, het Australië nie veel gedoen om klein besighede in die belastingbasis belastingbasis in te bring nie, maar Australië bied goeie voordele wat tot besigheidsgroei lei vir diegene wat reeds in die belastingbasis ingeskakel is.

Een van die uitdagings van baie klein besighede is kontantvloeibronne. Hierdie studie het bevind dat, Australië se belastingaansporings, die klein ondernemings se kontantvloei bevorder in teenstelling met die posisie in Suid-Afrika.

Toekomstige navorsingstudies moet die mate waartoe die onderskeie klein ondernemings bewus is van die belastingaansporingsskemas wat beskikbaar is, ondersoek. Dit wil sê, daar moet vasgestel word hoe ver elke land gegaan het om te verseker dat kleinondernemings vertroud is met al die moontlikhede tot hulle beskikking.

Sleutelwoorde:

*belastingaansporings*

*klein- medium- en makro-ondernemings*

*belasting*
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CHAPTER 1

INTRODUCTION AND BACKGROUND

1.1 BACKGROUND

Small businesses play a crucial role in stimulating economic activities, job creation, poverty alleviation and general upliftment, as well as improving living standards (SARS, 2006b:1). Small businesses are the backbone of any economy. According to Killian, Karlinsky, Payne and Arendse (2007:1), small businesses are universally recognised as an important driver of economic success. As job creators, sales generators and a source of tax revenue, they are a key ingredient in the economic machine that drives many countries’ economies.

In South Africa, the importance of the small businesses as the creator of jobs, particularly for those with a low skills level, is widely recognised. Small, medium and micro enterprises (SMMEs) contribute up to 36,1% of the country’s gross domestic product (GDP) and employ 68,2% of the private-sector workforce. In the agriculture, construction and retail sectors, SMMEs employ more than 80% of the total workforce. Over the last few years, the growth in employment by SMMEs has exceeded the growth of their contribution to GDP, confirming the job-creation potential of this sector of the economy (Killian et al., 2007:1).

The promotion of small business has always been of great concern to the South African government. In delivering his budget speech, the then minister of finance, Manuel (2005), indicated that government had, in previous years, focused closely on aspects of the tax law and its administration in order to contribute to small business development. He further advised that any plan to assist SMMEs would require adjustments to both policy and administration systems if it was to be effective. This view was supported by the then...
President of the Republic, Thabo Mbeki. In delivering his State of Nation Address, Mbeki (2006) confirmed the need to expand the small, medium and micro enterprise sector.

The study by Stern and Barbour (2005:2) has shown that, for many small entrepreneurs in Africa, the choice of whether to pay tax or remain in the informal sector is simple: most firms choose to stay in the informal sector if they can, because the perceived benefits outweigh the perceived costs. The actual tax costs and the tax compliance costs for small businesses are perceived to be high. It is therefore important to ensure that small businesses are taxed favourably to encourage them to comply with all applicable tax laws.

According to Pope (2008:22), Australia also shows a positive relationship between small businesses and GDP in that it contributes about 30% to GDP. In addition, small business has grown at an annual rate of 3,5% per annum since 1983. It accounts for 97% of all private sector business employing in the region of 3,6 million people (which is 49% of all private sector employment).

1.2 PROBLEM STATEMENT

According to Jousten (2007:14), tax policy is one prominent area in most countries whereby the legislator reserves special treatment for small and medium-sized enterprises (SMEs).

In his budget speech, the minister of finance, the then Minister of Finance commented that the development of business is not a core responsibility of the South African government. However, where this development would contribute to the creation of opportunities, to bring the poor and less fortunate into the mainstream of economic activity, then it should be supported by government. Parliament and all taxpayers have a responsibility to question continuously whether “government incentives are based on sound policies and criteria, not on favours or special interests masquerading as the public good” Manuel (2008:8).

Jousten (2007:17) argues that small business policy is often presented in the form of common claims which are advanced to justify special treatment; however, there is little
scientific evidence to really support these claims. It then becomes important for any effort by any government to treat small businesses differently to properly motivate them.

As South Africa operates on a global platform, it is important that the efforts encouraging SMMEs to grow and thrive are measured against their counterparts to align such initiatives to best practice and to ensure that what works in these countries is noted and, where possible, applied in South Africa.

1.3 PURPOSE STATEMENT

The purpose of this study is to make a critical comparison of tax incentives for SMMEs between South Africa and Australia.

1.4 RESEARCH OBJECTIVES

South Africa has indicated its commitment to expanding the SMME sector. The country is not alone in this; many other governments are looking at methods of encouraging entrepreneurship. Small business tax incentives, concessions or reliefs play a vital role in furthering this agenda. South Africa could consider certain tax policies adopted in Australia to encourage the expansion of the SMMEs and ensure that these SMMEs continue to contribute to the South African economy as well as being included in the tax base.

The objectives of this study are:

- to analyse the secondary literature on tax incentives for SMMEs in South Africa and Australia to establish the theoretical construct for this study; and
- to compare the tax incentives for SMMEs in South Africa and Australia using the theoretical construct as a basis.

1.5 IMPORTANCE AND BENEFITS OF THE PROPOSED STUDY

According to Fahlbeck (2005:7), the study of comparative law is twofold. First, it is the process of discovery and secondly it is a way of answering the question why things are
different in one country in comparison with the other. On this premise, it can be said that taxation of SMMEs in Australia differs from that in South Africa. Australia is a developed country, while South Africa is still developing. Australia has a mature legislation while South Africa does not. A comparison of the tax systems of the two countries would help South Africa, as a developing country, to measure its tax incentives against those of a developed country.

Despite the government’s concerted efforts to assist in the promotion of small businesses from the point of view of tax, there remain some unanswered questions. The study by Smulders and Oberholzer (2006:8-12) has shown that, although the government has put tax policies and administration model adjustments in place, there is still a long way to go before small businesses achieve sustainable growth, job creation and poverty alleviation. Their study shows that having policies is one thing but their implementation remains elusive in the South African environment.

1.6 DELIMITATIONS AND ASSUMPTIONS

1.6.1 Delimitations

This study will focus mainly on the incentives for small businesses in both countries. Any other incentives applicable to all (both small and large) business will not be considered. The differences in the currency rates will also be ignored, i.e. where, for example, certain rebates apply in both countries and the gap in these rebates is very wide, no attempt will be made to quantify the gap into South African monetary value.

1.6.2 Assumptions

This study is based on the following assumptions:

- where applicable, draft legislation as cited will be passed in its current form; and
- there is no universally-accepted definition of a small business, so a small business, small enterprise, SME and SMME would all refer to a small business.
1.7 DEFINITION OF KEY TERMS AND ABBREVIATIONS

1.7.1 Definition of key terms

The following key terms are defined below.

**Small business**
A small business is defined as “a separate and distinct business entity, including co-operative enterprises and non-governmental organizations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or sub-sector of the economy mentioned in column 1 of the schedule” (Department of Trade and Industry 2004:29).

**Small business corporation**
Small business corporation means any close corporation, co-operative or company registered as a private company in terms of the Companies Act, 61 of 1973, all the shareholders of which are at all times during the year of assessment must be natural persons, where

- the gross income for the year of assessment does not exceed R14 million;
- no member or shareholder of the corporation may at any time during the year of assessment have an interest in any other company other than an interest in a listed company …;
- the corporation may not be a ‘personal service provider’ as defined; and
- not more than 20% of the total receipts and accruals of the corporation may consist collectively of investment income and income from rendering personal service. (SARS, 2008:37.)

**Small business entity**
A small business entity is defined as an entity carrying on a business and generating less than A$2 million turnover per annum (ATO, 2008).
Year of assessment
Year of assessment means the tax reporting period for income tax and turnover tax. This period generally runs from the beginning of March to the end of February of the following year (SARS, 2010a:3).

Tax incentive
A tax incentive is a deduction, exclusion, exemption from a tax liability offered as an enticement to engage in a specified activity (Businessdictionary.com, Not dated).

Micro enterprise
The term micro enterprise is defined as a very small business establishment involving only the owner with about one or two paid employees. These businesses are generally not formalised, so that there are no business licenses, no formal business premises and no registration with tax authorities. Most of these businesses have a limited capital base. Their earning levels differ depending on their particular sector, growth phase and access to relevant support. (RSA, 1995:8.)

Small enterprises
Small enterprises make up a huge bulk of the established businesses employing between five and 50 personnel. These businesses are usually owner-managed and operate from formal business or industrial premises. They are formalised in the sense that they have business licenses and are registered with the relevant authorities. Because they operate in various business sectors like retailing, manufacturing, professional services and construction, classification in terms of assets and turnover is usually difficult. (RSA, 1995:8.)

Medium enterprise
Medium enterprises constitute a category that is difficult to classify in terms of the small and large business categories. Although they are regarded as being owner-managed and controlled, their shareholding or community control base could be highly complex. Such businesses employ in the region of 200 personnel and have a capital asset base of R5 million. (RSA, 1995:8.)
The National Small Business Act 13 of 1996 defines small enterprises in terms of micro, very small, small or medium enterprises according to different thresholds per different industries. This act classifies businesses in medium, small, very small and micro business in terms of the number of employees at any particular point in time, total annual turnover and the total gross asset value (excluding fixed property).

The following table highlights different thresholds for the classification of businesses.

### Table 1: Threshold business classification

<table>
<thead>
<tr>
<th>Sector or sub sector in accordance with the standard Industrial Classification</th>
<th>Size or class</th>
<th>Total full time equivalent of paid employees</th>
<th>Total annual turnover</th>
<th>Total gross asset value (fixed property excluded)</th>
</tr>
</thead>
<tbody>
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<td>Agriculture</td>
<td>Medium</td>
<td>100</td>
<td>R5m</td>
<td>R5m</td>
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<td></td>
<td>Small</td>
<td>50</td>
<td>R3m</td>
<td>R3m</td>
</tr>
<tr>
<td></td>
<td>Very small</td>
<td>10</td>
<td>R0.5m</td>
<td>R0.5m</td>
</tr>
<tr>
<td></td>
<td>Micro</td>
<td>5</td>
<td>R0.2m</td>
<td>R0.1m</td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td>Medium</td>
<td>200</td>
<td>R39m</td>
<td>R23m</td>
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<td></td>
<td>Small</td>
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<td>R10m</td>
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<td></td>
<td>Very small</td>
<td>20</td>
<td>R4m</td>
<td>R2m</td>
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<td>5</td>
<td>R0.2m</td>
<td>R0.1m</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>Medium</td>
<td>200</td>
<td>R51m</td>
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<td>Small</td>
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<td>R5m</td>
<td>R2m</td>
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<td></td>
<td>Micro</td>
<td>5</td>
<td>R0.2m</td>
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<td>Electricity, gas and water</td>
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<td>Construction</td>
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<td>Very small</td>
<td>20</td>
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<td>R0.5m</td>
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<td>Micro</td>
<td>5</td>
<td>R0.2m</td>
<td>R0.1m</td>
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<tr>
<td>Retail and motor trade and repair services</td>
<td>Medium</td>
<td>200</td>
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<td>R4m</td>
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<td>Total annual turnover</td>
<td>Total gross asset value (fixed property excluded)</td>
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<tr>
<td>Wholesale trade, commercial agents and allied services</td>
<td>Medium</td>
<td>200</td>
<td>R64m</td>
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<tr>
<td></td>
<td>Small</td>
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</tr>
<tr>
<td></td>
<td>Micro</td>
<td>5</td>
<td>R0.2m</td>
<td>R0.1m</td>
</tr>
<tr>
<td>Catering, accommodation and other trade</td>
<td>Medium</td>
<td>200</td>
<td>R13m</td>
<td>R3m</td>
</tr>
<tr>
<td></td>
<td>Small</td>
<td>50</td>
<td>R6m</td>
<td>R1m</td>
</tr>
<tr>
<td></td>
<td>Very small</td>
<td>20</td>
<td>R5.1m</td>
<td>R1.9m</td>
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<tr>
<td></td>
<td>Micro</td>
<td>5</td>
<td>R0.2m</td>
<td>R0.1m</td>
</tr>
<tr>
<td>Transport, storage and communications</td>
<td>Medium</td>
<td>200</td>
<td>R26m</td>
<td>R6m</td>
</tr>
<tr>
<td></td>
<td>Small</td>
<td>50</td>
<td>R13m</td>
<td>R3m</td>
</tr>
<tr>
<td></td>
<td>Very small</td>
<td>20</td>
<td>R3m</td>
<td>R0.6m</td>
</tr>
<tr>
<td></td>
<td>Micro</td>
<td>5</td>
<td>R0.2m</td>
<td>R0.1m</td>
</tr>
<tr>
<td>Finance and business services</td>
<td>Medium</td>
<td>200</td>
<td>R26m</td>
<td>R5m</td>
</tr>
<tr>
<td></td>
<td>Small</td>
<td>50</td>
<td>R13m</td>
<td>R3m</td>
</tr>
<tr>
<td></td>
<td>Very small</td>
<td>20</td>
<td>R3m</td>
<td>R0.5m</td>
</tr>
<tr>
<td></td>
<td>Micro</td>
<td>5</td>
<td>R0.2m</td>
<td>R0.1m</td>
</tr>
<tr>
<td>Community, social and personal services</td>
<td>Medium</td>
<td>200</td>
<td>R13m</td>
<td>R6m</td>
</tr>
<tr>
<td></td>
<td>Small</td>
<td>50</td>
<td>R6m</td>
<td>R3m</td>
</tr>
<tr>
<td></td>
<td>Very small</td>
<td>20</td>
<td>R1m</td>
<td>R0.6m</td>
</tr>
<tr>
<td></td>
<td>Micro</td>
<td>5</td>
<td>R0.2m</td>
<td>R0.1m</td>
</tr>
</tbody>
</table>


### 1.7.2 Abbreviations

The following abbreviations and attached meanings are used in the document.

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Meaning</th>
</tr>
</thead>
<tbody>
<tr>
<td>ATO</td>
<td>Australian Tax Office</td>
</tr>
<tr>
<td>CC</td>
<td>Close corporation</td>
</tr>
<tr>
<td>CGT</td>
<td>Capital gains tax</td>
</tr>
<tr>
<td>CIPRO</td>
<td>Companies and Intellectual Property</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Meaning</td>
</tr>
<tr>
<td>--------------</td>
<td>---------</td>
</tr>
<tr>
<td>Registration Office</td>
<td>Registration Office</td>
</tr>
<tr>
<td>DTI</td>
<td>Department of Trade and Industry</td>
</tr>
<tr>
<td>EPWP</td>
<td>Expanded Public Works Programme</td>
</tr>
<tr>
<td>ETO</td>
<td>Entrepreneur Tax Offset</td>
</tr>
<tr>
<td>FIAS</td>
<td>Foreign Investment Advisory Service</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GST</td>
<td>Goods and Services Tax</td>
</tr>
<tr>
<td>IDC</td>
<td>Industrial Development Corporation</td>
</tr>
<tr>
<td>ITAA</td>
<td>Income Tax Assessment Act</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation Development</td>
</tr>
<tr>
<td>PAYE</td>
<td>Pay As You Earn</td>
</tr>
<tr>
<td>PAYG</td>
<td>Pay-as-you-go</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>Research and Development</td>
</tr>
<tr>
<td>SAICA</td>
<td>South African Institute of Chartered Accountants</td>
</tr>
<tr>
<td>SARS</td>
<td>South African Revenue Services</td>
</tr>
<tr>
<td>SBA</td>
<td>Small Business Act</td>
</tr>
<tr>
<td>SBC</td>
<td>Small Business Corporation</td>
</tr>
<tr>
<td>SBE</td>
<td>Small Business Entity</td>
</tr>
<tr>
<td>SDL</td>
<td>Skills Development Levy</td>
</tr>
<tr>
<td>SEDA</td>
<td>Small Enterprise Development Agency</td>
</tr>
<tr>
<td>SME</td>
<td>Small and medium enterprise</td>
</tr>
<tr>
<td>SMME</td>
<td>Small, medium and micro enterprise</td>
</tr>
<tr>
<td>SRVP</td>
<td>Small Retailers VAT Package</td>
</tr>
<tr>
<td>STC</td>
<td>Secondary tax on companies</td>
</tr>
<tr>
<td>STS</td>
<td>Simplified Tax System</td>
</tr>
<tr>
<td>UK</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>UYF</td>
<td>Umsobomvu Youth Fund</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Meaning</td>
</tr>
<tr>
<td>--------------</td>
<td>-----------------</td>
</tr>
<tr>
<td>VAT</td>
<td>Value-added tax</td>
</tr>
</tbody>
</table>

### 1.8 RESEARCH DESIGN AND METHODS

The research design used in this study is a qualitative literature review. In arriving at the type of research design, the following was taken into account:
- the kind of study suitable to address the specific research problem; and
- the kind of design which will offer good evidence in answering and addressing the research problem (Mouton, 2001:33).

### 1.9 SUMMARY

In this chapter, the problem statement and the research objectives are identified and defined. A qualitative systematic literature review was used as a research design to ensure that the research objectives were achieved. The literature data items were assessed for validity and reliability and were then reviewed, analysed, consolidated and concluded upon in an unbiased manner.

In addition, this chapter defines the limitations and assumptions that underlie the research work and defines the key terms and abbreviations used in the dissertation.

The next chapter outlines the need for tax incentives for SMMEs, as well as the approaches by both the South African and Australian tax authorities to SMMES.

Chapters 3 and 4 address the specific research objectives by means of an analysis of the literature data items specific to the research objectives.

Chapter 5 compares the tax incentives for SMMEs between South Africa and Australia and chapter 6, the final chapter, provides a summary of the findings and presents conclusions.
CHAPTER 2

TAX INCENTIVES FOR SMMES

2.1 INTRODUCTION

This chapter will highlight the need for the differentiated form of taxation on SMMEs. In many countries, small businesses receive special treatment or are allowed special arrangements when it comes to taxation, in comparison with large businesses. This is owing to the role they play in the economy and the high administrative and compliance costs of servicing a large number of small businesses in the tax system.

2.2 THE NEED FOR TAX INCENTIVES FOR SMMES

As early as 1776, Adam Smith developed four basic principles of taxation:

- economic efficiency: taxation should not distort any business decisions;
- equity: taxpayers in the same position should not be taxed differently;
- transparency and certainty: it must be clear to the taxpayer what taxes are to be paid and when they should be paid; and
- administration: the collection of taxes should be such that no inconvenience is caused for the taxpayer and it must be cost efficient for the tax authorities to make revenue collections (ACCA, 2009:2).

Of the above four principles, the "equity" principle is likely to be breached. Jousten (2007:17) notes that politicians and the general public accept that there is a need for special tax treatment for SMEs. Considering the importance of small business in all the OECD countries, coupled with the obstacles to their livelihood and growth potential, government intervention may seem important (OECD, 1994:11). Australia is a member of the OECD. It is acknowledged that although South Africa is not a member of the OECD, it is an invitee, so this is also applicable.
2.2.1 Encourage formality

Tax incentives are used to encourage informal firms to become formalized. South Africa initiated a small business tax amnesty in 2006 to achieve this goal (SARS, 2006a:2). Informality comes at a cost to both small businesses and government. Some of the costs identified are:

- businesses in the informal sector are aware that they are under the radar of tax authorities and will consequently do everything possible, including restricting growth, to avoid attracting attention. In their efforts to do this, they may even split their operations into several smaller divisions spread across different locations, which may result in huge administration costs; and

- informal businesses are not able to participate in government procurement contracts (tenders). These businesses thus miss out on the opportunity to be part of the economic activities in developing countries (opportunity cost). They may not operate at optimum productivity because of uncertainty and may consequently not invest heavily in either the business or its employees (FIAS, 2006:4).

2.2.2 Encourage business growth and employment

The potential growth of most small businesses is jeopardized by lack of access to funding (Beck & Demirguc-Kent, 2006:2934). Credit facilities are, in many instances, difficult for small businesses to obtain in comparison with larger businesses because of their high risk factors. This hampers their opportunities to invest heavily in areas such as research and development, training and quality improvement, which are very important to their survival and growth. A number of interventions (including tax provisions) aim at supporting small businesses with sufficient cheap financing opportunities. (OECD, 1994:11.) Capital market imperfections and constraints make it difficult for small businesses to obtain funding. These businesses consequently rely on retained earnings as a primary source of finance, which may be limited for the start-up small businesses (ITD, 2007:11).

Small businesses are generally more reliant on their savings than are their larger counterparts. This is partly because financial institutions would, in many instances, require security and formal business records before granting credit facilities (GEM 2008:33). Most
small businesses have neither security nor the capacity to keep the requisite records. Banks also perceive SME financing as something on which to spend some of their advertising budget, but they do not carry out the real financing (Laing, 2010).

In the UK, companies, at their initial start-up, rely heavily on funding from sources other than financial institutions, such as their own savings and assistance from immediate family members. According to Hussain, Millman and Matlay (in Killian et al., 2007:4), it is only after two years of a company’s operation that financial institutions are able to provide funding for these small businesses.

To facilitate growth, the following government interventions were recommended for South Africa by the Global Entrepreneurship Monitor (GEM, 2008:34):

- provision of incentives to foster partnership between large business and small businesses, for example, tax incentives for large firms conducting business with small businesses;
- simplified business registration procedures for CIPRO, the banks and SARS; and
- introduction of tax incentives in the form of tax rebates for individuals investing in small businesses.

There is, however, a disincentive to being a small business in that the tax incentives provided may encourage small business not to grow as they will no longer qualify for these incentives (ITD, 2007:13).

The main issue, which is often ignored when using tax incentives to encourage business growth and employment, is that governments tend to use tax measures for addressing market failures. In instances where small businesses are unable to obtain funding for growth, governments should be addressing the core problem, which is funding. This could be done by providing subsidised loans, grants or guarantees to such businesses. A number of countries do have such schemes, for example, Canada, Japan and New Zealand. (ITD, 2007:13.)

South Africa has offered a great deal of support to SMEs by establishing different organs of state to focus on vast areas of business. The organs are *inter alia*:
- 14 -

- Business Partners Limited;
- Expanded Public Works Programme;
- Industrial Development Corporation;
- Khula Enterprise Finance Limited;
- National Empowerment Fund;
- Small Enterprise Development Agency; and
- Umsobomvu Youth Fund.

Small businesses in the rural areas are the only realistic source of employment. It was in this context that the OECD concluded that encouraging entrepreneurship is an effective means of job creation and poverty alleviation (ITD, 2007:14).

2.2.3 Broaden the tax base by improving tax compliance

Hodges (2005:1) notes that there is a higher cost in paying taxes than people are aware of, owing to the unseen cost of complying with government regulations. Many small businesses face high costs in complying with tax legislation, notwithstanding various other forms of government regulations, particularly when cross-border business activities are involved. Almost 50% of South African business owners are of the opinion that red tape hampers business growth. It is generally the administrative burden as well as the time it takes to adhere to regulations which are expensive rather than the actual monetary cost (Gauteng Business, 2006:2). According to the OECD (1994:13), compliance costs may be in different forms, namely:

- monetary costs: payments made to tax practitioners or salaries of employees engaged in any form of tax work;
- time costs: time taken in handling tax matters; and
- psychological costs: anxiety arising from fear of making a mistake in completing the forms or providing information which might result in the tax authorities undertaking an audit against the small business.
The study by Hendrikse (2005:2) revealed that in 2004, R79 billion was spent by the business fraternity in complying with government red tape. Small businesses feel that they are being used as an “unpaid tax collector” for government and that there is a cost in collecting these taxes on behalf of government. These feelings have resulted in calls for compensation for VAT and GST collection (on behalf of tax authorities) in Europe and Australia respectively (Pope, 2008:22).

The design of small business taxation should entail minimal compliance costs. Similarly, from the authorities’ perspective, the costs for administering these small businesses must be kept to a minimum, as the authorities might be resource and capacity constrained (Loeprick, 2009:1).

2.3 TAX AUTHORITIES’ APPROACHES TO SMMES

2.3.1 Introduction

The extent to which tax authorities value the contribution made by SMMEs will influence their approach as far as taxation on these SMMEs is concerned. There should, however, be measures in place to ensure that only deserving small businesses are permitted to take advantage of the tax incentives available. To discourage abuse of the incentives, authorities generally apply certain provisions, such as:

- consolidation of turnover or asset thresholds for entities connected with each other;
- no tax incentives towards activities not meeting government’s objectives; and
- tax relief provisions with specific exclusions aimed at the possible abuse of the relief provided (Killian et al., 2007:25-32).

In addition to the above, the following paragraphs will highlight efforts by South Africa and Australia to accommodate the SMMEs within their respective tax environments.
2.3.2 South African Revenue Service

SARS has always strived to consider ways of simplifying tax legislation, particularly for SMMEs. SARS concedes that if you are operating a small and simple business, then the law must accommodate your needs (Monteiro, 2005:2).

To this end, Manuel (2005:1) identified five key areas whereby small businesses could be empowered:

- **Streamlining taxes**
  The abolition of certain taxes (and exemption from these) and the simplification of certain taxes have been introduced to streamline the taxes. These include *inter alia*, the direct tax relief and the reduction of the administrative burden for small businesses in the repeal of the Regional Service Council and Joint Services Board levies (Smulders & Oberholzer, 2006:9).

- **Streamlining entry**
  To encourage small businesses to register for various taxes, SARS introduced the Small Business Tax Amnesty in 2006. Businesses qualifying for the amnesty were required to submit an income tax return and pay a non-disclosure penalty based on 10% of the 2005 taxable income. Certain categories of taxpayers were specifically excluded from qualifying for the amnesty (Smulders & Oberholzer, 2006:9).

In addition to the above, to reduce the registration burden on business owners for various forms of taxes including provisional tax, VAT and PAYE, Gordhan (quoted in Monteiro) indicated that SARS wants to get to the point where once a business has registered once, they have registered for everything. A free accounting package for small businesses was also being tested in 2005 for roll-out as early as 2006 (Monteiro, 2005:2). However, to date no such package has been released. The reduction in the number of registrations could also contribute towards lowering the tax-compliance costs.
• **Streamlining filing**

The submission of returns electronically enables taxpayers to file anywhere without the problems associated with queuing for long hours. In addition to this convenience, taxpayers are able to retrieve records of all returns submitted through e-filing from the SARS website. Tax clearance certificates can also be applied for on the SARS e-filing website. This goes a long way to reducing inconvenience (SARS, Not dated).

As it could take about 21 working days to obtain a tax clearance certificate, SARS was considering doing away with the requirement to be eligible for tendering. Thus, only short-listed businesses would be required to have the tax clearance certificate (Monteiro, 2005:2).

• **Advice and assistance**

SARS committed to providing community tax helpers, making small business help desks available in all call-centre branches and providing free business software (SARS, 2006b:9).

• **Tax relief for small business**

Various forms of tax relief were introduced into the tax regime including Section 12E of the Income Tax Act 58 of 1962.

2.3.3 **Australian Tax Office**

Although Australia has carried out significant tax reforms during the past 30 years, small business taxation came under consideration only in about 1990. As a result, Australia does not have a clear tax policy applying to small businesses. In instances where tax incentives target small businesses, these have proved complex, costly to access and difficult to administer (Pizzacalla, 2008:68).

However, in the main, the ATO has committed its support to the SMMEs, including developing internal controls for small businesses (ATO, 2010:22). Over and above this, a free record-keeping software known as e-Record has been made available on the ATO website for use by businesses (D’Ascenzo, 2006).
According to Pizzacalla (2008:65-66), the following factors led to the absence of a small business tax policy in Australia:

- there has never been a clear definition of SMMEs, so no appropriate policies could be developed;
- there is no statistical data on SMMEs to aid the authorities with policy decision-making;
- SMMEs are taxed according to their legal forms, as opposed to considerations such as size, assets value and turnover; and
- failure on the part of tax reform committees to consider the taxation of SMMEs.

### 2.4 CONCLUSION

Small businesses face many challenges. Because of the role they play in the economy, countries formulate tax policies that would offer special treatment to these businesses. The relief measures provided by various countries are, inter alia, to encourage formality, business growth and the creation of employment, as well as to broaden the tax base by improving tax compliance.

It is clear that governments have policies for incentivising small businesses. However, whether or not these policies are implemented could be another issue.

In the next chapter, there will be an overview of how SMMEs are currently taxed in South Africa.
CHAPTER 3

AN OVERVIEW OF SOUTH AFRICAN SMME TAXATION

3.1 INTRODUCTION

The following chapter provides an overview of the taxation of SMMEs in South Africa. It will consider all aspects of taxation where small businesses are directly or indirectly affected.

3.2 INCOME TAX

In 2001 certain deductions were introduced into the Income Tax Act 58 of 1962. Along with this introduction were the reduced normal tax rates for businesses meeting the definition of a small business corporation (Stiglingh, Koekemoer, Van Schalkwyk, Wilcocks, De Swardt, & Jordaan, 2009:178). Current applicable tax rates for these businesses are indicated in the following table.

<table>
<thead>
<tr>
<th>Taxable income</th>
<th>Tax rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>R0 – R57 000</td>
<td>0%</td>
</tr>
<tr>
<td>R57 001 – R300 000</td>
<td>10% of taxable income above R57 001</td>
</tr>
<tr>
<td>R300 001 and above</td>
<td>28% of taxable income above R300 001</td>
</tr>
</tbody>
</table>

Source: SARS (2010c: 1).

For an enterprise to be classified as a SBC, it would have to meet the requirements according to the following broad categories:

- ownership;
- turnover; and
- business activity (Smulders & Oberholzer, 2006:6).

Of the above criteria, the ownership requirement poses a possible concern. It is not clear why the shareholders are not allowed to hold any shares or have any interest in the equity.
of any company or close corporation. This restriction may lead to discriminatory treatment, as evidenced by the example below (Smulders & Oberholzer, 2006:6).

Assume there are two accountants (Acc 1 and Acc 2) who provide accounting services to their respective clients. In addition to their rendering accounting services to their respective clients, they each form a private company rendering transport services. They employ one administrative clerk each. Acc 2 has an equity shareholding in a dormant company, which was used five years ago for consulting services, but is not currently operating.

The following information applies.

Table 4: Basic information on shareholding

<table>
<thead>
<tr>
<th>Description</th>
<th>Acc 1</th>
<th>Acc 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross income</td>
<td>R300,000</td>
<td>R300,000</td>
</tr>
<tr>
<td>Accounting services</td>
<td>R75,000</td>
<td>R75,000</td>
</tr>
<tr>
<td>Computer purchased</td>
<td>R42,000</td>
<td>R42,000</td>
</tr>
<tr>
<td>Administration staff</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Equity shareholding in other companies</td>
<td>0%</td>
<td>100% in a dormant company**</td>
</tr>
</tbody>
</table>


From the above information it becomes evident that both businesses meet the following criteria:

- they are private companies;
- the shareholders are natural persons;
- the gross incomes do not exceed R14m; and
- the personal service income related to the accounting service does not exceed 20% of the companies’ total receipts and accruals.

Table 5: Impact of shareholding on the tax liability

<table>
<thead>
<tr>
<th>Description</th>
<th>Acc 1</th>
<th>Acc 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross income</td>
<td>R300,000</td>
<td>R300,000</td>
</tr>
<tr>
<td>Accounting services</td>
<td>R75,000</td>
<td>R75,000</td>
</tr>
<tr>
<td>Total receipts and accruals</td>
<td><strong>R375,000</strong></td>
<td><strong>R375,000</strong></td>
</tr>
<tr>
<td>Description</td>
<td>Acc 1</td>
<td>Acc 2</td>
</tr>
<tr>
<td>-------------------------------------------------</td>
<td>-------</td>
<td>-------</td>
</tr>
<tr>
<td>Less: Wear &amp; tear on the computer equipment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>S12E (R42000 X50%)</td>
<td>R21,000</td>
<td></td>
</tr>
<tr>
<td>S11(e) (R42000 X33.33%)</td>
<td></td>
<td>R14,000</td>
</tr>
<tr>
<td>Taxable income</td>
<td>R354,000</td>
<td>R361,000</td>
</tr>
<tr>
<td><strong>Tax payable on taxable income</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>S12E (reduced rates)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>First R57 000 @ 0%</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>(R300 000 – R57 000) @ 10%</td>
<td>R24,300</td>
<td></td>
</tr>
<tr>
<td>(R354 000 – R300 000) @ 28%</td>
<td>R15,120</td>
<td></td>
</tr>
<tr>
<td>R361 000 @ 28%</td>
<td></td>
<td>R101,080</td>
</tr>
<tr>
<td><strong>Net income after tax</strong></td>
<td>R314,580</td>
<td>R259,920</td>
</tr>
<tr>
<td>Gross income</td>
<td>R300,000</td>
<td>R300,000</td>
</tr>
<tr>
<td>Accounting services</td>
<td>R75,000</td>
<td>R75,000</td>
</tr>
</tbody>
</table>

Adapted: Smulders and Oberholzer (2006:8).

The two accountants received the same gross income and had the same asset value at the end of the year. However, owing to the shareholding requirement, Acc 2 generates R54,660 less in net profit after tax compared with Acc 1. Although the consolidated income of the shareholder from the two businesses does not exceed the R14 million threshold, the business owner is still taxed differently. Most entrepreneurs who wished to establish more than one business operating in various industries would be disadvantaged, even though the R14 million threshold has not been breached. This practice may in itself discourage entrepreneurs from exploring more than one business opportunity (Smulders & Oberholzer, 2006:6).

### 3.3 INTEREST EXPENSE

For the 2011 year of assessment the tax-free portion of interest income will be R22 300 (2010: R21 000) for taxpayers below 65 years and R32 000 (2010: R31 000) for taxpayers over 65 years of age respectively (SARS, 2010b:25). However, these exemptions would only apply to:
interest bearing products listed on the JSE;
interest paid by any one of the three spheres of government;
interest paid by any bank that is regulated in terms of the Banks Act 94 of 1990, Mutual
Banks Act 124 of 1993, Co-operatives Act 14 of 2005 and Dedicated Banks Bill;
interest paid by a friendly society registered under the Friendly Societies Act 25 of
1956;
interest paid by a medical scheme registered in terms of the Medical Schemes Act 131
of 1998;
collective investment schemes (money markets); and
interest from dealer or brokerage accounts.

It is evident from the above list that any interest earned from personal loans would be
taxed in full. Hassan (quoted in Laing, 2010) gave the following example to highlight the
impact of this amendment:

Say, for example, a retired father lends money to his son at the prime interest
rate. This is beneficial to the father, as he is receiving a rate in excess of the
bank savings rate. It is also beneficial to the son, as he is borrowing at a rate
lower than the rate the bank would give him. According to the proposal, the
father will not benefit from the interest exemption. This does not seem
equitable.

The implications of the above example are further illustrated in the following table,
assuming that the taxpayer is at the maximum marginal rate of 40%.

Table 6: Impact of the new interest exemption rule

<table>
<thead>
<tr>
<th>Description</th>
<th>Fixed deposit</th>
<th>Loan to a SMME</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment /Loan</td>
<td>R278,750</td>
<td>R278,750</td>
</tr>
<tr>
<td>Interest received (8%)</td>
<td>R22,300</td>
<td>R22,300</td>
</tr>
<tr>
<td>Tax payable on interest</td>
<td>R0</td>
<td>R8,920</td>
</tr>
<tr>
<td>received</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net return (R)</td>
<td>R22,300</td>
<td>R13,380</td>
</tr>
<tr>
<td>Net return (%)</td>
<td>8%</td>
<td>4.8%</td>
</tr>
</tbody>
</table>

Adapted: (Laing, 2010).
Clearly, the proposal may present further challenges to small businesses that are largely dependent on individual investors for funding due to barriers related to access to finance alluded to in chapter 2. As the net return on the loan provided to a small business is far lower than that of a fixed deposit, this may deter potential individual investors from assisting with any start-up or working capital.

Although SARS’ intentions may be good in that the interest exemption would now be applicable to savings flowing into the general economy (SARS, 2010b: 25), the adverse consequences for the small businesses would be severe. Bridges (2010) points out the following consequences:

- fewer people will provide capital for the small businesses;
- very few jobs will be created in the small business sector;
- most small businesses having to rely on financial institutions for funding may not be able to obtain such funding because of the National Credit Act 34 of 2005; and
- on account of cash-flow problems, owners who opt to withdraw only a portion of their salaries will now be penalized to the extent of the interest earned on the portion remaining in the company, as it is now taxed fully.

### 3.4 CAPITAL GAINS TAX

For the purposes of capital gains tax, a small business is defined as a business where the market value of the assets at the date of disposal does not exceed R5 million (SARS, 2006:29). In terms of paragraph 57(2) of the Eighth Schedule of the Income Tax Act, subject to certain conditions, sole traders, partners or members/shareholders (with 10% or more) in a close corporation or company may exclude R750 000 of the capital gain made on the disposal of active business assets when:

- they reach the age of 55 years; or
- the disposal is in consequence of ill-health, other infirmity, superannuation or death.

Furthermore, in terms of paragraph 57(3) of the Eighth Schedule of the Income Tax Act, this concession is only available to natural persons on any capital gain arising from the disposal of:

- an active business asset of a small business owned by him as a sole trader; or
• an interest in each of the active business assets of a partnership qualifying as a small business upon his withdrawal from the partnership; or

• an entire direct interest which consists of at least 10% of the equity of a company qualifying as a small business insofar as that interest relates to assets of that small business qualifying as active business assets.

In addition, in terms of paragraph 57(4) of the Eighth Schedule of the Income Tax Act, if the business is sold on credit, all payments must be received within 24 months of the disposal. However, this exemption does not apply to the person owning more than one small business while the total assets of all his small businesses exceed R5 million. In accordance with this restriction, it would appear that the South African government seeks to discourage persons from having multiple small businesses. Although this may make sense for relevant authorities from the administrative point of view, it disadvantages individuals who may wish to be involved in entrepreneurial initiatives in different industries (Smulders & Oberholzer, 2006:6).

3.5 SBC - DEPRECIATION ALLOWANCES

Certain deductions are available for the moveable assets of SBCs in terms of section 12E of the Income Tax Act. Section 12E was introduced specifically for small business corporations only.

These are summarized in the table below.
Table 7: Section 12E allowances

<table>
<thead>
<tr>
<th>Manufacturing assets</th>
<th>Non-manufacturing assets</th>
<th>Moving expense</th>
</tr>
</thead>
<tbody>
<tr>
<td>Applicable to</td>
<td></td>
<td></td>
</tr>
<tr>
<td>▸ plant and machinery</td>
<td></td>
<td></td>
</tr>
<tr>
<td>▸ owned or acquired (under an installment sale agreement) by the taxpayer and</td>
<td></td>
<td></td>
</tr>
<tr>
<td>▸ used directly in a process of manufacture or similar process</td>
<td></td>
<td></td>
</tr>
<tr>
<td>▸ for the first time on or after 1 April 2001</td>
<td></td>
<td></td>
</tr>
<tr>
<td>▸ by a small business corporation for the purposes of the taxpayer’s trade (other than mining and farming)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

A 100% allowance of cost is permitted in the year that the asset is brought into use, even if the asset is not utilized for the full year (s 12E(1)).

Non-manufacturing assets

<table>
<thead>
<tr>
<th>Applicable to</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>▸ any machinery, plant, implement, utensil, article, aircraft or ship</td>
<td></td>
<td></td>
</tr>
<tr>
<td>▸ that does not qualify for s 12E(1) (thus nor manufacturing assets) and</td>
<td></td>
<td></td>
</tr>
<tr>
<td>▸ Is acquired (under an agreement formally and finally signed) on or after 1 April 2005 and</td>
<td></td>
<td></td>
</tr>
<tr>
<td>▸ Would also qualify for deduction under s 11(e).</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The allowance is at the election of the small business (note 1), either

- the wear and tear allowance in terms of s 11(e) or
- 50% of the cost of the asset in the year during which that asset was brought into use for the first time, 30% of the cost in the second year and 20% of the cost in the third year (note 2 and 3).

Moving expense

<table>
<thead>
<tr>
<th>Applicable to</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>any expenditure incurred by the taxpayer in moving the asset from one location to another, which is not deductible under s 11(a), will be allowed</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- in equal installments over the remaining years of that capital deduction (in terms of s 12E(1) or 12E(1A)) will be allowed on the asset or
- In any other case in full in the year incurred

Only moving expenses relating to assets that qualify for a capital allowance in terms of s 12E(1) or 12E(1A) will qualify (s 12E(3)).

Notes

1. The taxpayer could elect to use section 11(e) if it presents a more favourable allowance than section 12E (1A).
2. The section 12E allowance is not apportioned if the asset is used for less than twelve months in that year (section 12E (A1)).
3. It is important to realise that in order for an asset to qualify for the deduction available for non-manufacturing assets in terms of section 12E (1A), the assets should meet and are subject to the requirements of section 11(e).

These deductions are available for both new and second-hand assets, but only if the taxpayer:

- qualifies as a small business corporation in terms of section 12E(4)(a); and
- is the owner or purchaser (under an instalment sale agreement) (Stiglingh et al., 2009:178).

Most small businesses incur losses in their first years of operation. The effectiveness of the accelerated depreciation allowances still needs to be assessed for the small businesses. Thus, most small businesses may accumulate tax losses during their first year of operation only to utilize these losses in the years when they would not really need them. However, for profitable small businesses, this incentive will go a long way to helping them from the perspective of cash flow (Terblanche, 2010).

3.6 VALUE-ADDED TAX

Value-added tax (VAT) is an indirect tax not assessed by SARS, i.e. it is a self-assessment tax. This form of tax is not unique to South Africa, but is common in at least 50 countries around the world (Stiglingh et al., 2009:850). It is levied in terms of the Value-Added Tax Act 89 of 1991.

3.6.1 Registration

Section 23 of the Value-Added Tax Act provides for either compulsory or voluntary registration. To comply with the registration requirements, Vanek (2010:6-7) notes that SARS requires that:

- applications be made in person by a vendor or duly authorised and accredited tax practitioner;
- each application should have a copy of the municipal account of the enterprise, copies of the last three months’ bank statements or the financial information on which the turnover was based; and
- the tax affairs of the shareholders the company or members of the close corporation be in order. Applications may be declined if the shareholders or directors of the company
or members of the close corporation have outstanding returns or owe outstanding amounts to SARS.

This practice made it impossible for small businesses operating from home to prove identity by means of municipal accounts and the requirements were relaxed to accommodate them.

In terms of section 23(3) of the Value-Added Tax Act, it becomes compulsory for enterprises to register for VAT only when income earned from selling goods or fees from services supplied in any consecutive period of 12 months is more than R1 million.

Section 23(3) of the Value-Added Tax Act provides for voluntary registration only where the value of taxable supplies already made has exceeded R50 000 in the past 12 months. However, the Commissioner may refuse voluntary registration in terms of section 23(7) of the Value-Added Tax Act if the vendor:

- has no fixed place of residence or business in South Africa;
- does not keep proper accounting records;
- has no banking account in South Africa;
- has previously been registered as a vendor in terms of VAT or GST requirements and has failed to perform the duties of a vendor; or
- has not met the minimum threshold requirement of a turnover of R50 000 over the past 12 months.

3.6.2 Small Retailers VAT Package

The Small Retailers VAT Package is aimed at simplifying and keeping the compliance and administration costs to a minimum without compromising SARS’ verification of the vendor’s liability. The criteria to have the application approved are:

- the vendor must supply standard-rated and zero-rated goods from the same premises;
- the vendor should not have adequate point-of-sale equipment; and
- taxable supplies should not exceed R1 million in any 12-month period (SARS, 2009:14).
However, with effect from 1 March 2010, vendors are no longer allowed to apply the calculation method as provided (RSA, 2010:4).

### 3.6.3 VAT accounting

The South African VAT system allows for two bases of accounting - the payment and invoice bases. Certain vendors are allowed to account for VAT on the payment basis. In terms of section 15 of the Value-Added Tax Act these vendors are:

- natural persons (or partnerships consisting only of natural persons) whose total taxable supplies at the end of a tax period have not exceeded R2.5 million in the previous 12 months and are not likely to exceed R2.5 million in the next 12 months; and
- public authorities, water boards, regional electricity distributors, municipal entities, municipalities, associations not for gain, welfare organisations irrespective of their value of taxable supplies.

### 3.6.4 Submission of returns

Small businesses whose income does not exceed R1,5 million are specifically catered for in terms of section 27 of the Value-Added Tax Act under category F, whereby returns are only submitted after 4 months for tax periods commencing 1 March 2008. This concession helps businesses struggling with cash flow to cope with SARS payments.

### 3.7 SKILLS DEVELOPMENT LEVY

In terms of section 4 of the Skills Development Levies Act 9 of 1999, businesses with a payroll of less than R500 000 per annum are exempted from the payment of SDL. Although this exemption applies to all businesses, it is more likely to affect small businesses. This is to encourage small businesses to hire employees (Killian et al., 2007:9). SDL is charged at 1% of the leviable amount.
3.8 VENTURE CAPITAL INVESTMENTS

In order to support greater access to equity finance to SMMEs in high tech sectors and junior mining exploration companies, there are incentives for people investing in venture capital investments. From 1 July 2009, in terms of section 12J of the Income Tax Act, a taxpayer is entitled to a deduction of 100% of the cost of shares issued by a venture capital company subject to the following limitations:

- a natural person may deduct R750 000 in a year of assessment and a cumulative total of R2 250 000;
- a listed company and any company held 70% directly or indirectly by that listed company can deduct a maximum of the cost of up to 40% of the total equity interest in the venture capital company; and
- the venture capital company must be approved by SARS as a qualifying company and fulfil a number of pre-conditions (PKF, 2010:31).

3.9 PRESUMPTIVE TURNOVER TAX

In 2008, National Treasury and SARS announced the initiative of reducing the tax compliance burden on certain small businesses whose turnover does not exceed R1 million (SARS, 2010a:4). The purpose of the presumptive turnover tax is not to reduce the tax liability for the qualifying businesses but to reduce their tax compliance costs. It will also reduce paperwork, while at the same time encouraging regular bookkeeping in preparation for the normal income tax system. This tax system is optional, meaning that small businesses could decide the year of entry into and exit from the system (SARS, 2010a:7). However, businesses electing the presumptive turnover tax are to stay in the system for three years before opting out (Terblanche, 2010).

This system seeks to substitute CGT, VAT, income tax and STC or withholding dividends tax with one turnover tax. Qualifying businesses include individuals, partnerships, close corporations, cooperatives and companies (SARS, 2010a:4).

The tax rates applicable for the 2010/11 year of assessment are indicated in the table below.
Table 8: Turnover rates for the year of assessment ending 28 February 2011

<table>
<thead>
<tr>
<th>Turnover</th>
<th>Marginal rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>R0 – R100 000</td>
<td>0%</td>
</tr>
<tr>
<td>R100 001 – R300 000</td>
<td>1% of each R1 above R100 000</td>
</tr>
<tr>
<td>R300 001 – R500 000</td>
<td>R2 000 + 3% of the amount above R300 000</td>
</tr>
<tr>
<td>R500 001 – R750 000</td>
<td>R8 000 + 5% of the amount above R500 000</td>
</tr>
<tr>
<td>R750 001 and above</td>
<td>R20 500 + 7% of the amount above R750 000</td>
</tr>
</tbody>
</table>


According to Rupping (quoted in Terblanche) this form of taxation is not ideal for businesses:

- that will be making losses in the first three years of entry into the system;
- that qualify as small business corporations; and
- with low profit margin and high turnover.

3.10 TAX AMNESTY

In 2006, SARS introduced a tax amnesty for qualifying businesses (SARS 2006a: 2). The amnesty applied to individuals, unlisted companies, close corporations, trusts, co-operatives and insolvent or deceased estates of an individual meeting the following requirements:

- the entity or individual must have carried on a business;
- the turnover of the business (or consolidated turnover in cases where there is more than one business) must not have exceeded R10 million in the 2006 year of assessment;
- shares in a company (or member’s interest in a close corporation) must have been held by individuals in the 2006 year of assessment; and
- in the case of a trust, all beneficiaries should have been natural persons during the 2006 year of assessment (FIAS, 2007:5-6).

Although the amnesty was not specifically for small businesses, it is evident from the R10 million turnover threshold that it will benefit most small businesses.
3.11 CONCLUSION

South Africa has developed a wide range of tax incentives for small businesses. The introduction of the tax amnesty for qualifying businesses was a great incentive for businesses whose tax affairs were not in order. The tax amnesty provided an opportunity for small businesses to come forward without facing huge penalties and interest charges.

Overall, South Africa has proved to be committed to the development and empowerment of small businesses through the tax incentives. These incentives are directed at various types of small business, depending on the qualifying criteria for each.

The next chapter focuses on the overview of how SMMEs are currently taxed in Australia.
CHAPTER 4

AN OVERVIEW OF AUSTRALIAN SMME TAXATION

4.1 INTRODUCTION

This chapter provides an overview of SMME taxation in Australia. These paragraphs will touch on all aspects of taxation where small businesses are directly or indirectly affected.

4.2 CAPITAL GAINS TAX

ATO offers four basic small business capital gains tax concessions in terms of section 152-B to E of ITAA 1997 being, 15-year exemption, 50% active asset reduction, retirement exemption as well as the rollover. To qualify for the CGT concessions, any one of the following criteria must be met:

- the taxpayer must be a small business entity;
- the taxpayer must be an individual not carrying on business (other than as a partner) but his asset is used in a business carried on by a small business entity which is his affiliate or an entity connected with him;
- the taxpayer must be a partner in a partnership that is a small business entity and the asset is one of the following:
  - an interest in an asset of the partnership;
  - an asset one owns which is not an interest in a partnership asset that is used in the business of the partnership; or
- the taxpayer must satisfy the maximum net asset value test (CGT net value assets must not exceed A$6 million) (ATO, 2008).

4.2.1 15-Year exemption

If the taxpayer has a business that has owned an asset for 15 years and as the owner he/she is aged at least 55 years or over and is retiring, or if he/she is permanently
incapacitated he/she then qualifies for an exemption when disposing of the same asset (ATO, 2008).

4.2.2 50% Active asset reduction

Small businesses are allowed to reduce a capital gain from a business active asset by 50% (ATO, 2008). The test for CGT to be an active asset is:

- seven and half years, if owned for more than 15 years; or
- half of the period of ownership if owned for 15 years or less.

4.2.3 Retirement exemption

There is a A$500, 000 lifetime exemption applicable to persons over 55 years of age when the sale of a business asset leads to a capital gain (ATO, 2008).

4.2.4 Rollover

The CGT rollover concession provides temporary relief for small businesses in instances where a small business asset is sold at a gain. The taxation of the gain made is deferred until certain circumstances cause a CGT event to occur. Circumstances which may trigger a CGT event are:

- where the asset is not replaced within the required period;
- where the replacement asset is subsequently sold; or
- where the replaced asset is no longer in use.

The relief measures provided for small businesses are:

- deferral of a capital gain from the disposal of a business asset for a minimum of two years; and
- if the taxpayer acquires a replacement asset, or makes a capital improvement to an existing asset, he can defer the capital gain until a change in the circumstances causes the gain to crystallize (ATO, 2008).
4.3 DEPRECIATION ALLOWANCES

The normal rules for depreciating assets are:

- assets costing A$1 000 and above are depreciated over the asset’s effective life;
- assets costing A$1 000 and below may be depreciated at 18.75% in the first year and 37.5% in the following years; and
- assets costing less than A$100 are written off immediately.

However, small businesses have the option of choosing any one of the following allowances, immediate write-off or small business depreciation pool.

4.3.5.1 Immediate write-off for assets

Assets with a cost price below A$1 000 may be written off immediately (ATO, 2008).

4.3.5.2 Small business depreciation pool

With some exceptions, certain assets costing more than A$1 000 are treated in the following manner:

- assets costing more than A$1 000 but with an effective life of less than 25 years may be depreciated at 15% in the first year and 30% in the years thereafter; and
- assets costing more than A$1 000 but with an effective life of more than 25 years may be depreciated at 2.5% in the first year and 5% in the years thereafter (ATO, 2008).

4.4 PREPAID EXPENSES

In terms of section 8-1 of the ITAA 1997, business expenses are generally fully deductible in the year in which they are incurred. Prepaid expenses are however treated differently. Prepaid expenses will only be allowed as a deduction immediately where:

- the expense is less than A$1 000;
- the cost is for salaries and wages; and
the law requires a prepayment.

Amounts exceeding A$1 000 will be allowed as a deduction apportioned over the income years to which it relates. However, special prepayment rules apply to certain expenditure to provide cash flow benefit to small businesses. In terms of sections 82KZM and 82KZMD of the income Tax Assessment Act 1936, small businesses are allowed immediate deduction of prepaid expenditure provided that:

- the prepayment period is not more than 12 months; and
- the prepayment period ends before the income year following the year of expenditure.

### 4.5 ENTREPRENEUR TAX OFFSET

To encourage and foster the entrepreneurial spirit of small businesses, the Australian treasury introduced 25% Entrepreneur Tax Offset for small businesses, particularly those that are set up and operate from home. In terms of sections 61-500 to 61-525 of the Income Tax Assessment Act, ETO provides small businesses with a discount of up to 25% of the tax liability for entities with a maximum of A$75 000.

Although the intention was to encourage small businesses, the practicality of this concession faces a number of challenges, including:

- the qualifying criterion is very subjective;
- the qualifying criterion tends to discriminate against other small businesses;
- taxpayers must have previously elected the STS system;
- actual tax savings can still be achieved by using other existing tax incentives;
- the workings around this concession may lead to increased compliance costs; and

### 4.6 RESEARCH AND DEVELOPMENT TAX OFF-SET

The Research and Development tax off-set helps qualifying small businesses in instances where they are not yet profitable. Companies are allowed to claim an accelerated
deduction of 125% with respect to the eligible research and development expenditure. In addition, an incremental 175% concession may be available, subject to meeting certain criteria (Pizzacalla, 2009b:14).

The criteria applying to small businesses are outlined in section 73J ITAA 1936. In terms of this section, small businesses would qualify for the R&D tax concession if:

- the total R&D expenditure is over A$20 000;
- the total R&D expenditure of the company and any other companies or persons in the group is less than A$1 million; and
- the R&D expenditure of the company and any other companies or persons in the group is less than A$5 million.

4.7 GOODS AND SERVICES TAX

Goods and Services Tax (GST) is the equivalent of VAT in South Africa. The following paragraphs will highlight the way in which Australia approaches this form of taxation.

4.7.1 GST Accounting

In terms of section 29-10 of the Goods and Services Tax Act of 1936 the ATO allows accounting for GST on a cash basis only if the following criteria are met:

- it is a small business with an annual turnover of less than A$2 million (the turnover should include all the small business’s related entities);
- the person is not operating a business but carrying on an enterprise with a GST turnover of A$2 million or less;
- the person accounts for income tax on a cash basis;
- the person carries on a kind of an enterprise which the Tax Office has determined to be able to account for GST on a cash basis regardless of the GST turnover; and
- it is an endorsed charitable organization, the person is a trustee of an endorsed charitable fund, gift deductible entity or government school regardless of the GST turnover.
On the cash basis, GST is attributed to the tax periods in which payment is received and input tax credits are attributed to the tax periods in which payment is made (ATO, 2008).

4.7.2 GST payments

The following entities are eligible to pay GST on instalments:

- a small business with an annual turnover (including the turnover of all related entities) of less than A$2 million; and
- not operating a business but carrying on an enterprise with a GST turnover of A$2 million or less (ATO 2010).

4.8 INVENTORIES

Businesses are required to account for the change in the value trading stock. This may lead to stock-take being undertaken (Pizzacalla, 2009b:6). However, in terms of section 328-285(1) of the Income Tax Assessment Act 1997, small businesses have the choice of not accounting for the movement in the value of their inventories if the difference between the reasonable estimate of the opening and closing stock value is less than A$5 000. However, this concession has not helped many small businesses as the A$5 000 threshold seems to be too low. For businesses with lower inventory value, the challenge would be to do a physical stock count, which might be costly. (Pizzacalla, 2009b:22.)

4.9 REVIEW OF ASSESSMENTS

The period in which the ATO can still review an assessment and undertake an audit on a small business is reduced from four to two years. This is primarily to improve the regulatory environment under which these businesses operate. The relaxations on record-keeping for small businesses may assist in keeping document storage costs low. However, this concession might also encourage non-compliance with tax laws by companies, knowing that they may not be audited after the period of 2 years has lapsed. (Pizzacalla, 2009b:22.)
4.10 CONCLUSION

The incentives provided in Australia are aimed mainly at giving relief as far as the cash flow of small businesses is concerned. GST incentives provide the cash flow relief measure and this incentive may be beneficial to a large number of small businesses. Although South Africa offers some cash flow relief when it comes to VAT, the qualifying criteria may make it difficult for a number of small businesses to enjoy this benefit.

The next chapter focuses on the findings made in this study.
CHAPTER 5

COMPARISON OF TAX INCENTIVES BETWEEN SOUTH AFRICA AND AUSTRALIA

5.1 INTRODUCTION

This chapter will provide a comparison of the SMME tax incentives in these two countries. However, there will be greater emphasis on the incentives that appear to differ from each other. This comparison will measure the extent to which both countries tax their respective small businesses based on the identified need for SMME tax incentives set out in chapter 2.

From the analysis in the previous chapters, it is clear that both South Africa and Australia have virtually similar incentives for small businesses in various areas. Each country has some form of incentive in the following areas:

- VAT / GST;
- asset depreciation; and
- capital gains.

5.2 COMPARISON OF TAX INCENTIVES BETWEEN SOUTH AFRICA AND AUSTRALIA BASED ON THE IDENTIFIED NEED FOR TAX INCENTIVES FOR SMMES

5.2.1 Formality

In general, both countries have some kind of incentives to encourage small businesses to be formal, as can be seen from the overview of country-specific SMME tax incentives. Although the extent of these incentives, their effectiveness and their success rate may be different, it is evident that incentives are in place to encourage the formality of small businesses.
From the South African perspective, SARS’ introduction of the tax amnesty was an encouragement for businesses both whose tax affairs were not right and who were not yet formal to come forward.

There is no incentive in Australia for small businesses whose affairs are not in order. These businesses risk paying huge sums in penalties and interest if they do decide to formalise. These businesses would probably prefer to remain off the tax authorities’ radar screen for as long as possible in order to avoid paying for their past sins of non-compliance.

5.2.2 Business growth and employment

Small businesses do not have to remain small forever. They must be encouraged to grow so they can contribute to the economy of the country. It must be pointed out that both the formal and public sectors have failed to absorb the increasing number of job seekers in South Africa and a great deal of attention is now being focused on entrepreneurship (GEM 2008:4). The emergence of small businesses could create jobs and contribute to economy.

Some of the challenges faced by small businesses as far as growth and creating employment are concerned are cash and access to finance. For every small business, "Cash is king". Cash flow is the life-blood of any business (Powerhomebizz.com, Not dated). Incentives that are less likely to impact on the small business cash flow may therefore not make a meaningful contribution to the business’ survival.

From a cash flow perspective, Australia is committed to easing the cash flow burden. It offers better incentives in that its cash basis of accounting for VAT is applicable to small businesses. Although South Africa does offer the cash basis of accounting for small businesses, this is more beneficial to natural persons.

In South Africa, the taxation of interest received from loans provided to small businesses will make it even harder for small businesses to gain access to cash, as they will now have to rely more on banks than before owing to the disincentive to loan providers. It is highly
likely that, for small businesses which cannot meet the bank financing requirements, the interest charged by individual investors would be extremely high if they are to cover for this extra tax charge.

Australia offers a tax relief in cases where small businesses are expected to make prepayments. Unfortunately, South Africa does not have a similar concession. That is, prepayments are deducted only over the period in which income is earned.

Should South Africa not reconsider the deductibility of prepaid expenses for small businesses, it could consider the taxability of these expenses in the hands of the receiving small business taxpayer. In South Africa, in terms of section 1 of the Income Tax Act, (gross income definition), all businesses are currently required to include in their taxable income any money they have received in advance. To obtain business in a highly competitive market, small businesses may charge very low margins. In instances where small margins are being charged and the customers pay in advance, small businesses might find themselves in a situation in which the very little money received is being taxed and paid over to SARS even before materials are purchased for the customers.

The payment of different taxes is still a considerable challenge. Divaris (in Smulders & Oberholzer, 2006:1) argues that to really empower small businesses from the cash-flow point of view, some inconsistencies must still be attended to. For example, SARS expects all businesses to pay provisional tax, income tax and VAT regardless of whether the business has sold the goods on credit (thereby not having received the cash immediately) or not. That is, the government expects the business to have sufficient working capital to pay all due taxes even though no collections from the debtors are made yet.

In addition, if businesses are to grow there must an entrepreneurial drive amongst business owners. Given the stiff competition in the market, small businesses will need to be innovative if they are to survive, which could prove difficult, particularly during the start-up phase of these businesses. It becomes crucial to entice them to be really innovative and to develop new products. Financial resources should be made available to the aspirant businesses.
Australia offers entrepreneurial and Research & Development Tax offsets. Although South Africa also offers some relief to qualifying expenses relating to the intellectual property and research and development (Stiglingh et al., 2009:215). However, these relief measures apply to both large and small businesses, meaning that small businesses do not enjoy any preferential tax treatment in this regard. The deduction of research and development expenses is not a policy decision directed solely towards the small businesses.

South Africa offers good incentives for venture capital investments. However, these are applicable only to natural persons and listed companies in high tech sectors and junior mining exploration companies. In order to benefit from these incentives, a taxpayer would not use a close corporation or unlisted company to access them. Thus, taxpayers might have to hold shares in their personal capacity in the venture capital company. If these investors held any other shares in the close corporation, the latter would lose its small business corporation status and be taxed at 28% without the benefit of the progressive rate of 0% to 28%. If this incentive were to be applied differently to include everyone using the turnover threshold, the situation could be extremely different.

As part of its drive to create more jobs, South Africa encourages small businesses to hire employees, as employers with a payroll of less than R500 000 per annum are exempted from the SDL. As the SDL is levied on the employer, this exemption goes a long way towards improving the small business employer’s cash flow.

5.2.3 Broadening tax base and improving compliance

Although SARS made the following promises to the taxpayers, it is not clear whether all these have been kept or whether they are effective in meeting SARS’ expectations:
- community tax helpers helping small businesses with the completion of the tax forms;
- small business help desks coupled with extended hours for both the call-centre and selected offices; and
- accounting and payroll packages (Mahabane, 2005).

The study by Abrie and Doussy (2006:6) has shown that more than 50% of the respondents were not aware of the tax incentives available to them. The study suggested
that this could be an indication that the current tax system is highly complex and that campaigns by SARS are not always successful.

The provision of accounting and payroll software would go a long way towards assisting small businesses, but to date SARS has offered no free accounting and payroll software. This is a clear indication that what SARS is promising is not necessarily what you get.

Australia has rolled out free record-keeping software known as e-Record (D’ Ascenzo, 2006). The provision of this software has proven Australia’s commitment to helping small businesses.

5.3 COMPARISON OF TAX INCENTIVES BETWEEN SOUTH AFRICA AND AUSTRALIA

The following table compares the different tax incentives that exist between South Africa and Australia.

<table>
<thead>
<tr>
<th>Tax incentive</th>
<th>South Africa</th>
<th>Australia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income tax: Lower corporate tax rate and / no corporate tax rate below a particular turnover threshold</td>
<td>Yes (applicable to businesses qualifying as small business corporation in terms of section 12E of Income Tax Act)</td>
<td>No</td>
</tr>
<tr>
<td>Tax amnesty to encourage businesses whose affairs may not be in order with the relevant tax authority</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Accelerated depreciation allowance (including immediate write-off of an asset based on a particular cost threshold)</td>
<td>Yes (applicable to businesses qualifying as small business corporation in terms of section 12E of Income Tax Act)</td>
<td>Yes (in terms of Subdivision 328-D of the Income Tax Assessment Act)</td>
</tr>
<tr>
<td>Capital gains tax exemptions by individuals of a particular age</td>
<td>Yes (in terms of paragraph of Eighth schedule to the Income Tax Act)</td>
<td>Yes (in terms of Subdivision 152-D of the Income Tax Assessment Act)</td>
</tr>
<tr>
<td>VAT registration exemptions below a particular turnover threshold</td>
<td>Yes (in terms of section 23 of the Value-Added Tax Act)</td>
<td>No</td>
</tr>
<tr>
<td>Tax incentive</td>
<td>South Africa</td>
<td>Australia</td>
</tr>
<tr>
<td>--------------------------------------------------</td>
<td>------------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------</td>
</tr>
<tr>
<td>VAT – cash basis of accounting</td>
<td>Yes (in terms of section 15 of the Value-Added Tax Act)</td>
<td>Yes (in terms of section 29-40 of the GST Act)</td>
</tr>
<tr>
<td>VAT – Extended period of submission of returns</td>
<td>Yes (in terms of section 27 of the Value-Added Tax Act)</td>
<td>No</td>
</tr>
<tr>
<td>VAT payment instalments</td>
<td>No</td>
<td>Yes (in terms of section 162-5 of the GST Act)</td>
</tr>
<tr>
<td>Skills development levy</td>
<td>Yes (in terms of section 4 of the SDL Act)</td>
<td>No</td>
</tr>
<tr>
<td>Venture capital investments</td>
<td>Yes (in terms of section 12J of the Income Tax Act)</td>
<td>No</td>
</tr>
<tr>
<td>Presumptive turnover tax</td>
<td>Yes (in terms of paragraph of Sixth schedule to the Income Tax Act)</td>
<td>No</td>
</tr>
<tr>
<td>Deduction of prepaid expenses</td>
<td>No</td>
<td>Yes (in terms of sections 82KZM and 82KZMD of the income Tax Assessment Act)</td>
</tr>
<tr>
<td>Entrepreneur tax offset</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Research and development</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Inventories (not taking into account the change in the value of trading stock subject to certain requirements)</td>
<td>No</td>
<td>Yes (in terms of section 328-285(1) of the Income Tax Assessment Act)</td>
</tr>
<tr>
<td>Review of assessments</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Provision of an accounting software</td>
<td>No</td>
<td>Yes</td>
</tr>
</tbody>
</table>

5.4 CONCLUSION

From the above table, it is evident that although some incentives are similar, there are those offered by South Africa which are not offered by Australia and vice versa.
CHAPTER 6
CONCLUSIONS

6.1 INTRODUCTION

This chapter summarises the findings and conclusions of the study. First, a summary of the findings and conclusions relating to the research objectives is presented. This is followed by a brief review of the limitations of the study and the recommendations for future research. In the final section, the conclusion on the problem statement of the study is presented.

6.2 RESEARCH PROPOSAL AND OBJECTIVES

The purpose of this study was to make a critical comparison of tax incentives for SMMEs between South Africa and Australia. The need for SMME taxation was discussed in chapter 2 followed by an overview of the South African and Australian SMMEs taxation in chapters 3 and 4 respectively. Thereafter, a comparison was made in chapter 5.

The objectives of this study were:

- to analyse the secondary literature on tax incentives for SMMEs in South Africa and Australia to establish the theoretical construct for this study. (This was done in chapters 2, 3 and 4); and
- to compare the tax incentives for SMMEs in South Africa and Australia using the theoretical construct as a basis. (This was done in chapter 5).

6.3 LIMITATIONS OF THE STUDY

The study focused on the incentives applicable to small businesses only. Incentives applicable to both small and large businesses have not been considered. In addition, no attempt has been made to quantify into South African monetary value the extent of the differences in the incentives as a result of the difference in the currency rates.
6.3 TAX INCENTIVES FOR SMMES IN SOUTH AFRICA

This study has found that South Africa has numerous tax incentives for small businesses. The incentives are in the following areas: income tax, capital gains tax, SBC depreciation allowances, value added tax, skills development levy, venture capital investments, presumptive turnover tax, tax amnesty and interest expense.

These incentives cut across a number of aspects in the business. Although different qualifying criteria are applied to each incentive, it is possible that a small business can benefit from more than one incentive. Amongst others, the incentives:

- reduce the tax liability of small business through reduced income tax rates;
- defer the payment of capital gains tax on certain assets;
- offer certain deductions for moveable SBC assets;
- reduce the compliance burden with different forms of taxes through the presumptive turnover tax;
- improve the cash flow positions of small businesses through the SDL exemption; and
- through certain thresholds, exempts small businesses from complying with the VAT as well as the SDL Acts.

A business that qualifies as a small business corporation stands to benefit from a number of incentives including the reduced income tax rates and accelerated depreciation allowances. However, the ownership requirement may discourage the spirit of entrepreneurship amongst many individuals (Smulders & Oberholzer, 2006:6).

6.4 TAX INCENTIVES FOR SMMES IN AUSTRALIA

Australia has a variety of tax incentives in the form of capital gains tax, prepaid expenses, entrepreneur tax offset, goods and services tax and review of assessments.

These incentives are in many ways similar to those offered by South Africa. However, Australia offers additional incentives directed towards:
• encouraging the entrepreneurial spirit of small businesses through the entrepreneur as well as the research and development tax offsets. Although the qualifying criterion may be subjective and could even discriminate against other small businesses, the entrepreneur tax offset is a good incentive by the Australian Treasury for small businesses operating from home. This incentive coupled with the provision of free accounting software may help small businesses particularly in their start-up phases;

• cash flow management through the deduction of certain prepaid expenses, cash basis of accounting for GST as well as GST payment instalments.

A unique incentive by Australia is the shortened period (from four to two years) in which the tax authorities can review the assessments. This incentive could help reduce storage costs in order to comply with tax laws.

6.5 CONCLUSION

This study suggests that, based on the findings and conclusions in terms of the research objectives, South Africa has done more to incentivise the SMMEs to become formal. However, once achieved, there is little to incentivise them to grow and create the much-needed employment. The tax amnesty was a great incentive to get all the small businesses whose tax affairs were not in order into the tax base. However, there were no incentives to keep them there.

On the other hand, Australia has not put in much effort into ensuring that small businesses are formalized and included in the tax base. However, for those that are already in the system, Australia seems to be keeping them in business through the reliefs in the form of GST accounting, entrepreneur tax offsets, and the deduction of prepaid expenses.

Although incentives offered by these countries may not be the same, they are broadly similar. For example, although Australia does not have reduced income tax rates, it offers prepaid expenses deductions which South Africa does not offer. Thus, what Australia does not offer is being compensation by some form of another incentive.
6.6 RECOMMENDATIONS FOR FUTURE RESEARCH

This study has revealed that both these countries have incentives for small businesses. The study has not dealt with the extent to which the small businesses are benefiting from these incentives.

Future research studies should investigate the extent to which the respective small businesses in Australia and South Africa are aware of the tax incentives available to them. That is, it must be established how far each of the two countries has gone in ensuring that small businesses are familiar with all the incentives at their disposal.
LIST OF REFERENCES


**ACTS**

**SOUTH AFRICA**


**AUSTRALIA**

