

# REVIEW OF THE IMPACT OF SMALL BUSINESS TAX RELIEF INITIATIVES TO ENCOURAGE ECONOMIC GROWTH IN SOUTH AFRICA

By

Mmbaiseni Langanani Ramusetheli

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



Supervisor: Mr Jan Nell

**August 2011**

## ACKNOWLEDGEMENTS

I would like to thank the following people for the contribution they made to this dissertation:

- Ms Sharon Ann Smulders;
- Ms Hanneke Du Preez;
- Mr Jan Nell for your guidance; and
- My husband Koni and our daughter Malamba for your guidance, support and for being my pillars of strength.

## ABSTRACT

# REVIEW OF THE IMPACT OF SMALL BUSINESS TAX RELIEF INITIATIVES TO ENCOURAGE ECONOMIC GROWTH IN SOUTH AFRICA

by

Mmbaiseni Langanani Ramusetheli

Supervisor: Mr Jan Nell

Department: Taxation

Degree: Magister Commercii (Taxation)

Small businesses play an important role in economic activity and they can be a major contributor to job creation. The South African government has realised the importance of small businesses. Since 2001, they have introduced tax relief initiatives to encourage society to start their own businesses, which could have a positive impact on job creation.

This study discusses the income tax relief initiatives introduced in South Africa, the objectives and practicality thereof. It analyses the effectiveness of these income tax relief initiatives as a tool to encourage small business activity.

This study also discusses tax relief initiatives in China and the United States of America. This is then compared to South Africa. Conclusions were drawn on whether South Africa could apply any of these tax relief initiatives to its tax system.

Conclusions drawn from this study are that South Africa has come a long way to encourage small business activity in South Africa. In comparison to other countries, South Africa seems to be committed to supporting small businesses and their policies are similar to those in other countries evaluated.

## OPSOMMING

# OORSIG VAN DIE IMPAK VAN BELASTINGVERLIGTING INISIATIEWE TEN OPSIGTE VAN KLEIN BESIGHEDE TEN EINDE EKONOMIESE GROEI IN SUID-AFRIKA TE BEVORDER

deur

Mmbaiseni Langanani Ramusetheli

Studieleier: Mnr Jan Nell  
Departement: Belasting  
Graad: Magister Commercii (Belasting)

Klein ondernemings speel 'n belangrike rol in die ontwikkeling van ekonomiese aktiwiteite en hulle kan 'n groot bydrae lewer tot werkskepping. Die Suid-Afrikaanse regering het die belangrikheid van klein besighede besef. Sedert 2001 het die regering belastingverligting inisiatiewe geloods om die gemeenskap aan te moedig om hul eie ondernemings te begin wat 'n positiewe impak op werkskepping kan hê. Verdere belastingverligting inisiatiewe is sedert 2001 geloods.

Hierdie studie bespreek inkomstebelastingverligting inisiatiewe in Suid-Afrika, die doelstellings en die praktiese uitvoerbaarheid daarvan. Dit ontleed die doeltreffendheid van hierdie inkomstebelastingverligting inisiatiewe as 'n instrument om groei in klein sake-aktiwiteite aan te moedig .

Die studie bespreek ook belastingverligting inisiatiewe in China en die Verenigde State van Amerika (VSA). Dit word dan ook met Suid-Afrika vergelyk. Gevolgtrekkings was gemaak in verband met die moontlikheid of Suid-Afrika enige van die belastingverligting inisiatiewe kan toepas in hul eie belastingstelsel.

Die gevolgtrekkings van hierdie studie is dat Suid-Afrika al 'n ver pad gestap het in die aansporing van kleinsake-aktiwiteite in Suid-Afrika. In vergelyking met ander lande blyk dit

dat Suid-Afrika toegewyd is tot die ondersteuning van kleinsake-ondernemings en dat hul beleid soortgelyk is aan die van ander lande wat ook geëvalueer was.

## TABLE OF CONTENTS

1.1	INTRODUCTION.....	1
1.1.1	BACKGROUND.....	1
1.1.2	PROBLEM STATEMENT .....	2
1.1.3	PURPOSE STATEMENT .....	2
1.1.4	RESEARCH OBJECTIVES .....	3
1.1.5	IMPORTANCE AND BENEFITS OF THE PROPOSED STUDY .....	3
1.1.6	DELIMITATIONS AND ASSUMPTIONS .....	4
1.1.6.1	DELIMITATIONS.....	4
1.1.6.2	ASSUMPTIONS .....	5
1.1.7	DEFINITION OF KEY TERMS.....	5
1.2	LITERATURE REVIEW .....	9
1.2.1	INTRODUCTION.....	9
1.2.2	COMPLIANCE COSTS .....	9
1.2.2.1	Definitions.....	9
1.2.2.2	Impact on small businesses .....	11
1.2.2.3	Conclusion.....	19
2.1	INTRODUCTION.....	21
2.2	“SMALL BUSINESS” DEFINITIONS FROM A SOUTH AFRICAN TAXATION PERSPECTIVE .....	21
2.2.1	INTRODUCTION.....	21
2.2.2	DEFINITION IN RELATION TO INCOME TAX.....	22
2.2.3	DEFINITION IN RELATION TO CAPITAL GAINS TAX (CGT).....	25
2.2.4	DEFINITION OF A MICRO BUSINESS FOR TURNOVER TAX PURPOSES.....	25
2.3	INCOME TAX RELIEF INITIATIVES .....	26
2.3.1	INTRODUCTION .....	26
2.3.2	REDUCED TAX RATE .....	27



2.3.2.1	Description of the reduced tax rate relief initiative .....	27
2.3.2.2	Objectives and practical application of the reduced tax rate relief initiative .....	28
2.3.2.3	Possible pitfalls of the reduced tax rate relief initiative .....	28
2.3.3	ACCELERATED DEPRECIATION .....	29
2.3.3.1	Description of the accelerated depreciation tax relief initiative .....	29
2.3.3.2	Objectives and practical application of the accelerated depreciation tax relief initiative.....	32
2.3.3.3	Possible pitfalls of the accelerated depreciation tax relief initiative .....	32
2.3.4	CAPITAL GAINS TAX .....	33
2.3.4.1	Description of the capital gains tax relief initiative .....	33
2.3.4.2	Objectives and practical application of the capital gains tax relief initiative .....	33
2.3.4.3	Possible pitfalls of the capital gains tax relief initiative .....	34
2.3.5	VENTURE CAPITAL COMPANIES .....	34
2.3.5.1	Description of the VCC tax relief initiative.....	34
2.3.5.2	Objectives and practical application of the VCC tax relief initiative .....	37
2.3.5.3	Possible pitfalls of the VCC tax relief initiative.....	38
2.3.6	TURNOVER TAX .....	38
2.4	CONCLUSION .....	39
3.1	INTRODUCTION.....	41
3.2	TAX RELIEF INTITIAIVES IN CHINA .....	41
3.2.1	PREFERENTIAL TAX STATUS .....	42
3.2.2	TAX EXEMPTION TO ENCOURAGE FINANCING TO SMALL BUSINESSES.....	42
3.2.3	R&D TAX CREDITS .....	43
3.3	TAX RELIEF INTITIAIVES IN THE UNITED STATES OF AMERICA .....	44
3.3.1	BONUS DEPRECIATION.....	44
3.3.2	DEDUCTION OF START-UP EXPENDITURES.....	44



3.3.3	EXPENSING OF CERTAIN REAL PROPERTY .....	45
3.3.4	ZERO TAXES ON CAPITAL GAINS FROM KEY SMALL BUSINESS INVESTMENTS .....	48
3.3.5	A FIVE-YEAR CARRYBACK OF GENERAL BUSINESS CREDITS .....	48
3.3.6	DEDUCTION OF HEALTH INSURANCE COSTS FOR SELF-EMPLOYED .....	48
3.3.7	TAX RELIEF AND SIMPLIFICATION FOR CELLULAR TELEPHONE DEDUCTIONS.....	49
3.3.8	LIMITATIONS ON PENALTIES FOR ERRORS IN TAX REPORTING .....	50
3.4	SUMMARY OF TAX RELIEF INITIATIVES APPLIED IN OTHER COUNTRIES.....	51
3.4.1	INTRODUCTION.....	51
3.4.2	TAX RELIEF INITIATIVES APPLIED IN OTHER COUNTRIES THAT ARE SIMILAR TO THOSE AVAILABLE IN SOUTH AFRICA – FOR EXAMPLE: .....	51
3.4.3	TAX RELIEF INITIATIVES APPLIED IN OTHER COUNTRIES THAT ARE NOT AVAILABLE IN SOUTH AFRICA – FOR EXAMPLE: .....	51
3.5	CONCLUSION .....	53
4.1	INTRODUCTION.....	54
4.2	POSITIVE TAX RELIEF INITIATIVES.....	54
4.2.1	ACCESS TO FINANCE .....	54
4.2.2	JOB CREATION.....	55
4.2.3	ENCOURAGE CAPITAL INVESTMENT .....	55
4.2.4	REDUCED TAX RATES.....	56
4.2.5	OTHERS.....	56
4.3	NEGATIVES.....	56
4.3.1	REDUCED TAX RATES.....	56
4.3.2	ACCESS TO DEBT FINANCE.....	57
4.3.3	REDUCTION IN INTEREST AND PENALTIES.....	57
5.1	CONCLUSIONS AND RECOMMENDATIONS .....	59



5.1.1 RECOMMENDATIONS .....	59
5.1.2 CONCLUSION.....	61
LIST OF REFERENCES.....	63

## LIST OF DIAGRAMS

DIAGRAM 1: HOW THE VCC WORKS .....	36
------------------------------------	----

## LIST OF TABLES

TABLE 1: Abbreviations used in this document .....	8
TABLE 2: Comparison of the building allowances.....	47
TABLE 3: Comparison of cellular phone write-off period.....	49

# **REVIEW OF THE IMPACT OF SMALL BUSINESS TAX RELIEF INITIATIVES TO ENCOURAGE ECONOMIC GROWTH IN SOUTH AFRICA**

## **CHAPTER 1 INTRODUCTION AND BACKGROUND**

### **1.1 INTRODUCTION**

#### **1.1.1 BACKGROUND**

With the high unemployment rate in South Africa, starting a business has become the only way of survival for most people. As a result, there is an increase in the number of South Africans who are starting their own businesses. As of September 2006, there were 2.6 million small enterprises in South Africa (Small Enterprise Development Agency, 2006:7). Governments have realised that small businesses play an important role in economic prosperity and these small businesses tend to be disproportionately affected by regulations (Smulders, 2006:93). Since 1994, with the advent of a new democratic era, the South African government has taken initiatives to ensure that small business development becomes a key policy focus (Department of Trade and Industry, 2005).

According to Smulders (2006:96), South African small businesses find complying with the tax laws to be a constraint on their growth. This is mainly based on the high costs incurred by small businesses in order to remain tax compliant. The 2004 Global Entrepreneurship Monitor has revealed a total entrepreneurial activity index (TEAI) score of 5.4% for South Africa, a value that is significantly below the average of 9.4% (Duncan, 2005:5). In order to encourage entrepreneurial activity in the country, a number of tax relief initiatives have been introduced for small businesses, with the aim of empowering and reducing their tax compliance burden.

Although many government policies are implemented with good intentions, they often have adverse effects and unintended consequences. This can also apply to policies that

government has implemented with the intention to empower small businesses, but not all of them will achieve this objective.

Even though the government often introduces new legislation in order to reduce the tax compliance burden on small businesses, Thersby (2006:2) noted that many small businesses that qualify for special tax allowances and incentives are not even aware of such incentives. In response to these problems, SARS is constantly introducing new initiatives to bridge the gap. This study will assess whether the government has done enough in terms of tax relief initiatives to achieve their objectives or whether more could still be done.

### **1.1.2 PROBLEM STATEMENT**

Although there is a substantial body of knowledge available in the literature on the tax compliance burden for small businesses and the tax relief initiatives, there is, however, an inadequate body of knowledge regarding whether the implemented income tax relief initiatives actually achieve the objectives as communicated by SARS. As a result there is a clear need to understand the effect of the income tax relief initiatives particularly on small businesses in order to evaluate and identify major areas of concern and provide recommendations as to what more could be done to improve or enhance the effectiveness of small businesses through tax relief initiatives.

### **1.1.3 PURPOSE STATEMENT**

The aim of this study is to discuss the income tax relief initiatives for small businesses and explain the practical application and objectives thereof. The study will also discuss the tax relief initiatives applied in other countries and compare these to those available in South Africa and make recommendations for South Africa, drawing guidance from tax relief initiatives in other countries.

#### **1.1.4 RESEARCH OBJECTIVES**

The following specific objectives will guide the study:

- To identify and discuss the income tax relief initiatives implemented by SARS in relation to small businesses.
- To explain the practical application and objectives of each income tax relief initiative.
- To identify the problem areas of each income tax relief initiative.
- To make recommendations that could encourage small business growth and activity, drawing solutions from tax relief initiatives used in other countries.

#### **1.1.5 IMPORTANCE AND BENEFITS OF THE PROPOSED STUDY**

The vital roles of small businesses in stimulating the country's economy, growth and poverty alleviation through job creation and the up-liftment of living standards has been recognised both internationally and in South Africa (Smulders & Oberholzer, 2006:8). This study will seek to identify income tax relief initiatives provided to small businesses. This will be beneficial to small business owners as they will be aware of all the income tax relief available to their businesses in order to fully utilise such reliefs.

The study will also identify possible problem areas in the income tax relief initiatives already in place and make recommendations for other income tax relief initiatives that could be implemented to achieve government's objectives. The recommendations that would be adopted from this study will be beneficial to SARS and enable it to stimulate the growth of the small business sector, which in turn would lead to the growth of the country's economy.

The rest of the document is structured as follows: the next section discusses the delimitations identified to date. This is followed by definitions of key terms and the abbreviations used in the study. The literature review that follows is composed of an analysis of the tax burdens that are facing small businesses, the definition of the

compliance costs and the impact of these tax burdens on the administration and management of small businesses. The second chapter will comprise an analysis of the tax relief initiatives that the South African government has implemented to address these tax burdens. The third chapter will consist of an analysis of the tax relief initiatives implemented in other countries. The last chapter will draw conclusions on whether the tax relief initiatives implemented in South Africa are considered sufficient to stimulate entrepreneurial activity in this country.

## **1.1.6 DELIMITATIONS AND ASSUMPTIONS**

### **1.1.6.1 DELIMITATIONS**

The proposed study has several delimitations related to the context, which should be taken into consideration when reviewing the demarcation of the study:

- Only income tax related reliefs fall within the scope of this study; other relief initiatives that are not of an income tax nature fall outside the scope of this study.
- Only income tax relief initiatives applicable to South African small businesses will be discussed.
- Mining and farming industries are excluded from this study as they have specific tax policies applicable to them.
- The analysis will be limited to small businesses as defined by the South African tax law.
- The study will focus on tax relief initiatives that are already implemented. Any proposed tax relief initiatives will be briefly discussed, but not analysed.
- Tax relief initiatives applied in other countries are not exhaustive, there could be other tax relief initiatives not mentioned in this study.

### **1.1.6.2 ASSUMPTIONS**

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

### **1.1.7 DEFINITION OF KEY TERMS**

- Business Credit

The general business tax credit is unique in that it is not a single separate credit. Instead, it represents a collection of specific tax credits that promote certain business activities, such as research, oil recovery, reforestation, or starting a pension plan. Each credit is tallied up on a separate form first, and then carried over to the General Business Tax Credit Form 3800 (Anon, Not dated).

- Formal and informal businesses

For the purpose of this study, businesses are divided into two categories, namely formal businesses, which are those registered as taxpayers, and informal businesses, which are those not registered as taxpayers.

- Incorporate:

Constitute (a company, city or other organisation) as a legal corporation (AskOxford.com, Not dated).

- IT14:

An income tax return that companies and close corporations are required to submit to SARS on an annual basis.

- Marginal effective tax rate (“METR”)

(FIAS, 2006) defines METR as follows: the METR measures the extent to which the tax system reduces the real rate of return on investment, at the margin. More formally, the METR is defined as:

$$\text{METR} = (\text{ROR}_{bT} - \text{ROR}_{aT}) / \text{ROR}_{bT}$$

where  $\text{ROR}_{bT}$  and  $\text{ROR}_{aT}$  are the real rates of return before and after tax, and ROR is:

Present discounted value of annual net earnings = PDV(E)

Capital Expenditure

K

- Qualifying Investors (in relation to a Venture Capital Company)

Individuals and listed companies, including section 41 group company members (SARS, 2011).

- Qualifying share (in relation to a Venture Capital Company)

An equity share held by a venture capital company which is issued to that company by a qualifying company, unless that venture capital company has an option to dispose of the share, or the qualifying company has an obligation to redeem that share, for an amount other than the market value of the share at the time of that disposal or redemption (SARS, 2011).

- Regulatory compliance

For the purpose of this study, regulatory compliance refers to measures taken by businesses, to comply with the relevant regulations.

- Stock

A share that somebody has bought in a company or business (Oxford, 1454).

- Tax Law compliance

For the purpose of this study, tax law compliance refers to measures taken by businesses, to comply with the South African tax laws.

- Venture capital company (“VCC”)

A company that has been approved by the Commissioner and in respect of which such approval has not been withdrawn. A company must meet all of the following preliminary requirements to qualify for an approved VCC status for each year of assessment:

- The company must be a South African resident;
- The sole object of the company must be the management of investments in qualifying companies (i.e. investees);
- The company must be an unlisted company (section 41 of the Act);
- The company must not be a controlled group company in relation to a group of companies contemplated in paragraph (d)(i) of the definition of “connected person” in section 1 of the Act;
- The company’s tax affairs must be in order;
- The company, together with any connected person, must not control any qualifying investee company (i.e. small business or junior mining company) in which it holds shares;
- The company must be licensed in terms of section 7 of the Financial Advisory and Intermediary Services Act, 2002 (SARS, 2011).

**TABLE 1: Abbreviations used in this document**

<b>Abbreviation</b>	<b>Meaning</b>
CGT	Capital Gains Tax
CIT	Corporate Income Tax
DTI	Department of Trade and Industry
Income Tax Act	Income Tax Act no. 58 of 1962
METR	Marginal Effective Tax Rate
R&D	Research and development
SA	South Africa
SAICA	South African Institute of Chartered Accountants
SARS	South African Revenue Service
SBC	Small Business Corporation
SBP	Strategic Business Partnerships for business growth in Africa
SME	Small and medium enterprise
SMME	Small, medium and micro enterprise
STC	Secondary tax on companies
USA	United States of America
VAT	Value Added Tax
VCC	Venture Capital Company

## 1.2 LITERATURE REVIEW

### 1.2.1 INTRODUCTION

Most small businesses are faced with tax compliance burdens. Several studies including those by (Chamberlain & Smith, 2006), Smulders (2006), Arendse, Karlinsky, Killian and Payne (2006) have been conducted to understand the tax burdens that small businesses are faced with and the impact these burdens have on the administration and management of small businesses. The government has come up with tax relief initiatives to address some of the tax compliance burdens faced by small businesses. There is currently inadequate literature that focuses on the tax relief initiatives that have been implemented by government. The current study will focus on the tax relief initiatives implemented by government and whether these are sufficient to promote small business activity. As a starting point this study will discuss the tax compliance burdens faced by small businesses as it will outline what the problems were and how far the government has come to address those problems through tax relief initiatives.

### 1.2.2 COMPLIANCE COSTS

#### 1.2.2.1 Definitions

Internationally, the cost of compliance with regulation is noted as a key inhibitor to small business development (Chamberlain & Smith, 2006:1). Smulders (2006:34) performed a study in which she reviewed the nature, definition and quantification of compliance costs incurred by small businesses. It is worthwhile to first define the main regulatory costs that businesses are faced with to illustrate why administrative and compliance costs are the focus of many studies performed in relation to small businesses. Smulders (2006:35) summarised the main regulatory costs as follows:

- *Compliance Costs* – Understanding regulations with assistance from experts, proving compliance by submitting forms and more.
- *Administrative Costs* – Assessing submitted forms, undertaking inspections and more.

- *Efficiency costs* – Buying, installing and maintaining equipment required by regulations, making choices about production techniques, the number of people employed, and/or which markets to compete in, based on regulatory impacts.
- *Non-compliance costs* – Staying small or informal as a means of avoiding regulatory oversight or remaining below regulatory thresholds. Incurring fines, having stock confiscated or destroyed, and/or having to pay bribes as a result of attempts to evade regulatory compliance.

From the definitions above, it is evident that compliance and administrative costs are ongoing costs that a business would need to deal with every year or as often as they have to comply with regulation (e.g. usually four monthly for VAT purposes and at least bi-annually for income tax purposes). Efficiency costs are not as regular as the above two costs and for some businesses they are only ever incurred at inception of the business. Non-compliance costs, on the other hand, are incurred in order to avoid incurring administrative and compliance costs.

(USAID, 2008:6) defined compliance costs as all costs incurred in the course of ensuring compliance with relevant tax regulations. These costs include:

- The costs incurred in the course of record-keeping – This includes all the costs associated with the compiling and organisation of receipts and records;
- The costs incurred in the preparation and submission of all relevant tax returns;
- The value of the time utilised by the small business staff in ensuring proper compliance, including visits to tax offices;
- The costs incurred for the services of tax practitioners, accountants and other consultants that may have been required to either ensure compliance and/or address disputes with SARS; and
- All other costs incurred in the course of ensuring compliance, including incidental and travel costs.

Compliance costs are pure red-tape costs: that is, they are the incremental costs incurred by businesses in the course of complying with the regulations. They include:

- The value of time spent by business managers and staff in terms of understanding the rules and applying them;
- Interacting with the authorities to clarify matters arising; and
- The payment made for the expertise of professional advisers such as consultants, lawyers and accountants (SBP, 2005:5).

Even though they might differ in the detail, the definition of compliance costs in all the literature is consistent. They all refer to the costs that businesses incur to ensure they comply with the law. Turner, Smith and Gurd (Smulders, 2006:39) summarised it in the following definition “the costs incurred by taxpayers and third parties in meeting the requirements laid upon them in complying with a given structure and level of tax”.

#### **1.2.2.2 Impact on small businesses**

According to the SBP’s (2003), SME Alert, taxation ranks high as a source of regulatory cost and disincentive for small-scale entrepreneurs. This study also indicated that other studies have shown that tax compliance absorbs a large share of the administrative costs of businesses. In the UK, for example, tax compliance costs appear to account for 40% to 50% of all regulatory costs. This is significantly higher than the South African share of 25% as shown in the study conducted by the SBP in Chamberlain and Smith, 2006. The study estimated the total regulatory compliance costs for formal firms in South Africa to have been approximately R79 billion in 2004, and 6.5% of the GDP and total tax compliance costs to have been R20 billion in the same year. However, 25% is still a large share of the total regulatory costs. The need for government intervention in reducing these costs is clear.

Arendse, Karlinsky, Killian and Payne (2006:3) argue that the costs of complying with tax laws, both in terms of time and expense, are particularly significant for small businesses and they have been found to be proportionately higher than for large businesses. Such

costs include not only continuing internal compliance, such as correctly applying tax law, keeping required records and completing tax documentation, but also time to learn about new laws or law changes, as well as external costs of obtaining professional advice or assistance.

In a study conducted by (FIAS, 2007:2), it was found that overall the compliance costs are regressive – the smaller the business, the heavier the burden. The registration process is complicated and cumbersome. The key findings were as follows:

- It would cost the average small business R1 478 to register (for four key taxes – income tax, provisional tax, value added tax and employees' tax).
- R7 030 per annum is the average fee that tax practitioners charge their small business clients to ensure that tax returns for the four key returns are prepared, completed and submitted as required by SARS.
- R12 185 is the average fee charged by tax practitioners to help small businesses with completing and maintaining their accounting/bookkeeping records. From a quarter to a third of the average tax practitioner's clients purchase these services.
- Registering and preparing, completing and submitting VAT returns takes the longest and costs the most of the four key taxes. The provisional tax is the most burdensome tax for small businesses.
- Firms are required to register for VAT if their turnover is R300 000 (*increased to R1 million effective 1 March 2009*) or greater.
- Case Study: For a firm with an annual turnover of just over R300 000, that makes a 20% profit rate (about R60 000), the cost of registration alone (about R1 400) would be the equivalent of an extra 2.33% profit tax. The annual cost for basic compliance.
- The cost of hiring an accountant to prepare tax returns for the four major taxes alone amount to the equivalent of an additional 12% profit tax (on top of the statutory profit tax of 28%) (FIAS, 2007:2).

A study conducted by Smulders and Stiglingh (2008:366) also revealed similar results to those from the FIAS study. The findings revealed that R7 030 per annum is the average

fee tax practitioners charge their small business clients to ensure that their tax returns for the four key taxes (Income Tax, Provisional Tax, VAT and Employees' tax) are prepared, completed and submitted as required by SARS. The provision of other services would average R24 158 per annum.

As can be seen above, a lot is expected from businesses in order to comply with the tax regulations. Considering that most small businesses do not have many skilled employees, the compliance requirements can be seen as a burden. In their study, Venter and de Clercq (2007a:84) found that due to the ever-changing nature of taxation, a great deal of time is required to keep up to date with changes and it is very difficult to find staff with appropriate tax skills, hence the need to make use of specialists.

According to a survey conducted by the SBP (2005:32), it revealed that the broad category of taxes is by far the most burdensome set of regulations. Of total responses, 19% cited requirements associated with VAT as the most burdensome set of regulations, whilst "SARS tax administration" formed the third most burdensome set of regulations. In this study it was argued that a large part of tax compliance costs is due to the complexity of tax forms and other paperwork. Using tax specialists is another cost that small businesses have to incur because their workforce is not skilled enough to deal with the complex, ever changing tax issues. SARS conducted extensive consultations with the small business sector to identify compliance burdens that could be eased without too high a cost to the fiscus. During these consultations it was identified that approximately 95% of small and medium enterprises have to outsource some of their compliance issues to tax practitioners, adding significantly to the already high cost of compliance (Arendse *et al.*, 2006:17). It was found in the study performed by Smulders (2006:55) that most small businesses utilise services of tax specialist because of the lack of expertise and time from their side. This is further evidence of the need for the government's involvement to simplify the tax regulation for small businesses. It should be borne in mind that in no way is this study suggesting that small businesses should not be liable for tax, but rather that their tax compliance requirements should be simplified.

The number of taxes that small businesses face is what contributes to the higher costs of compliance. For example, a tax practitioner will charge a taxpayer per tax return for each type of tax that has to be submitted. Therefore if all the taxes were combined into one tax, this will reduce the tax practitioners' fees. According to Venter and de Clercq (2007a:76), prior to the introduction of the turnover tax, small businesses were faced with the following taxes that they had to comply with:

- Income Tax
- Capital Gains Tax
- Secondary Tax on Companies
- Provisional Tax
- Employees' Tax
- Value Added Tax
- Skills Development Levies
- The Unemployment Insurance Fund (UIF)
- Custom and Excise Duties
- Transfer Duty
- Donations Duty
- Stamp Duty (*Abolished with effect from midnight on 31 March 2009*).

This amounts to eleven taxes that small businesses have to comply with, which could be an administrative and financial nightmare for a business that does not have a full time tax expert. Non-compliance with these rules as a result of lack of proper administration or management may lead to penalties and interest being charged, which could be detrimental to businesses (Venter & de Clercq, 2007a:76).

Overall, the following may be observed about the cost to enterprise in terms of the time required to prepare, complete and submit tax returns:

- Income tax and provisional tax placed the lowest and second-lowest burdens respectively on enterprises in terms of the time requirement for their completion and filing.
- The highest requirement was for employees' taxes (PAYE, UIF and SDL), which accounted for almost half of all time spent per annum on relevant taxes.
- VAT was the individual tax with the highest demand on time, consuming roughly one third of all the time taken per annum on all taxes.
- Enterprises in the lowest turnover category (less than R70 000 per annum) spent a disproportionately greater amount of time trying to accomplish all the required activities for filing returns for taxes for which they were registered. This corresponded to their low rates of outsourcing observed earlier, meaning that the burden of these tasks inevitably fell to resident capacity. Furthermore, given the small size of these enterprises, it was likely that resident capacity was fairly low, thereby further increasing the amount of time needed to accomplish the required tasks.
- The total cost to enterprise in terms of time taken for individual taxes as well as all taxes summatively indicated an increase until the turnover category R1million to R6 million, after which the time taken tapered off. A similar effect was observed in the tax practitioner study, with a tapering off after the R6 million turnover threshold, although the decrease was much slighter than that observed in this study. The data from this study did not allow for a proper examination of the reasons for this, and it remains an issue for future examination (USAID, 2008:60).

A survey conducted by Venter and de Clercq (2007b:144) revealed which taxes are outsourced and which are administered internally:

- *Employees Tax* – The size of the enterprise has an impact on whether the employees' tax function is administered internally; the larger an enterprise, the greater its capacity to administer this function. An interesting finding from the survey is that medium retail enterprises are more inclined to outsource their employees' tax function than medium enterprises in manufacturing or business services.

- *Taxes of Companies: Normal Income Tax* – Majority of manufacturing enterprises (small and medium) elect to outsource their responsibility to manage income tax. It is also evident that the majority of business service enterprises take responsibility for their income tax affairs internally.
- *Taxation of Companies: STC* – Manufacturing small businesses are more inclined to outsource their responsibility for STC than enterprises in the other sectors. It is also evident that the internal management and administration of the STC function is more prevalent amongst larger enterprises.
- *Value Added Tax* – The size of an enterprise has a direct impact on its ability to administer and manage the VAT function internally. However, it is interesting to note that just over 40% of both the small and medium retail enterprises outsource their VAT functions (Venter & de Clercq, 2007b:144).

Besides VAT, most small businesses deal with the following monthly taxes internally: Regional Services Council (RSC) levies, Unemployment Insurance Fund (UIF) levies, Skills Development Levies (SDL) and Employees Tax (Abrie & Doussy, 2006:7).

The respondents indicated that a lack of time is one of the main reasons, across the different sectors, for outsourcing tax functions. A large proportion of small businesses also indicated that they outsource due to a lack of skilled tax staff (Venter & de Clercq, 2007b:147).

In a study performed by Venter and de Clercq (2007b:147) to determine which of a range of possible options to reduce tax compliance burdens small businesses would prefer, the following results were obtained: the first choice for small manufacturing enterprises was a reduction in tax rates (which SARS has implemented by introducing the reduced tax rates relief initiative. Refer to chapter two for a discussion on reduced tax rates for small businesses). Both small retail and business service enterprises' preferred choice was a reduction in penalties and interest rather than a reduction in tax rates. The first preference for small businesses in all sectors is a reduction in penalties and interest, followed by a desire for a SARS helpdesk to provide information on taxes and a reduction in the tax burden on small businesses. From the above findings, it is evident that small businesses

find penalties and interest to be a significant problem for them and they would prefer a reduction in this regard. However, it can also be argued that if the tax system was not so complex and cumbersome, then small businesses would not be incurring so many penalties and interest.

In view of the above findings in respect of the number of taxes that small businesses have to comply with and their reasons for outsourcing some of their tax functions, the following recommendations were made by Abrie and Doussy (2006:11):

- It could reduce the number of taxes small businesses have to administer. For every type of tax, an additional form or forms usually needs to be completed. By reducing the number of taxes, one automatically reduces the number of forms as well. This in turn makes it easier to train staff to administer compliance with the tax liability, because less needs to be taught and less needs to be known.
- SARS can reduce compliance requirements. For example, the income tax division of SARS could also collect employment-related levies (skills development, unemployment insurance and the workmen's compensation fund). One additional paragraph in the income tax return could then replace a number of the forms required at present. The aim should be to reduce the number of forms that have to be completed, to make the forms shorter and easier to fill in and also to reduce the number of times per year that forms have to be submitted.
- The law could be streamlined and simplified. For example, there is little need to distinguish between SITE and PAYE on the IRP5 form and in the Fourth Schedule to the Income Tax Act ("the Act"). For example, a simple stipulation that SARS will not refund any PAYE below a certain amount could easily replace a very complex and involved piece of legislation.
- Additional tools can be made available to small businesses and other taxpayers to assist them in administering taxes. In this regard, the possibility of providing free software packages to taxpayers to calculate tax liability automatically can be considered.

A study performed by USAID (2008a:40) indicates that there are still small businesses that do not see the benefits of registering as a taxpayer. The following were indicated as the five main reasons for not registering as a taxpayer:

- *High rates of taxation* – 18.4% of respondents indicated that the rate at which small businesses was currently taxed was too high, and that this rate had many adverse consequences for the enterprises. Principal amongst these were the reduced levels of re-investment in the business, and the difficulties created for cash-flow by having to meet the required tax assessment.
- *The negative impact on profit-making* – In addition to the assessment that the current tax rates were high and therefore removed money that the business would otherwise have considered using for re-investment, 10.8% of respondents believed that being registered and therefore paying tax impacted negatively as they were not able to ensure profit-taking. This diminished profit-taking in turn implied that people were less likely to either expand the business and/or start or grow other businesses.
- *The high cost of tax compliance* – 13% of respondents believed that tax registration was onerous because of the costs associated with tax compliance and all the compliance-associated tasks and activities. Principal factors associated with this cost were the costs of contracting tax practitioners to complete and submit the necessary tax returns, and the costs of general recordkeeping and accounting throughout the year.
- *The time and effort required to complete and submit tax returns* – 9.9% of respondents indicated that the requirements for tax compliance in terms of the labour and time of staff were high, and that this resulted in the business being adversely affected as staff were otherwise engaged in tax compliance matters.
- *No control over how government spent tax revenue* – Finally, 4.7% of respondents believed that being registered was not advantageous to them because they could exercise no control over how the collected revenue was spent by government. However, as taxpayers globally did not have direct control over revenue spent, respondents appeared resigned to this fact, though they were clearly dissatisfied with the lack of control (USAID, 2008a:40).

In a similar study performed by USAID on informal businesses, the following were noted as pitfalls of registering as a taxpayer:

- *Being subject to regular SARS audits and inspections* – Many of the respondents believed that tax registration would automatically lead to greater potential exposure to SARS inspections and audits. Much of what respondents believed about inspections and audits was obtained from reports they received from others, as none would have actually undergone either of these for themselves. However, it was clear that what had been transmitted to them was not generally positive, hence their already strongly negative perceptions about these SARS activities.
- *Being subject to complicated tax rules and procedures* – The majority of these small businesses believed that taxation was something of a labyrinth with respect to rules, regulations and procedures, and this clearly placed a requirement on them for learning about these which they would much rather avoid. Once again, their sense of the complexity of tax rules and regulations was obtained indirectly from reports by others, and was not grounded in direct personal experience.
- *Having to employ professionals at considerable cost to deal with these complicated rules and procedures* – Concerns about the overall costs of tax compliance were paramount for these informal small businesses, and sometimes with good reason. The previous chapter indicated the overall levels of turnover for this sector, and it was clear that current margins were relatively tight and hence concerns about cost, whilst they may not always be grounded in a clearly informed cost estimate, are nevertheless important enough to be formally acknowledged (USAID, 2008b:34).

### **1.2.2.3 Conclusion**

In addition, and moving beyond various perceptions held about taxation, tax registration and the tax authorities, it was also evident that informal small businesses did have some very legitimate concerns about tax registration and compliance. The complexity of tax rules and regulation was one such concern, and one that could not be easily discounted as it emerged as a factor even in the case of the survey of formal small businesses, many of

whom have had many years of experience in being compliant. Hence, it was not unreasonable to believe that the complexity of taxation and tax compliance might present some well-grounded worries for businesses which were currently fairly small and quite informal (USAID, 2008b:35).

As stated in the 2002 budget speech by the then Finance Minister, Trevor Manuel (2002), “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. In addition, a simplified approach to calculating VAT obligations will be investigated.”

Government is committed to uplifting small businesses as it has realised its role in economic growth and employment. To achieve this, a number of tax relief initiatives have been introduced. The following chapters will focus on these tax relief initiatives and how they affect small businesses in South Africa. Chapter 2 discusses the tax relief initiatives in South Africa whereas Chapter 3 discusses the tax relief initiatives in other countries and compares this to what is available in South Africa. Chapter 4 provides a conclusion on whether South Africa is on the right track in its assistance of small businesses to achieve government’s objectives.

## **CHAPTER 2**

# **TAX RELIEF INITIATIVES IMPLEMENTED FOR SMALL BUSINESSES IN SOUTH AFRICA**

### **2.1 INTRODUCTION**

According to the tax guide for small businesses published by SARS (2009b:40), tax relief initiatives can be divided into the following categories:

- small business corporations (SBCs);
- manufacturing;
- micro businesses (turnover tax) farming; and
- mining.

The first two categories will form part of this study. Due to constraints of resources and the specialised nature of farming and mining, these two categories will be excluded from this study. Since turnover tax is still relatively new, it will only be discussed briefly in this study.

### **2.2 “SMALL BUSINESS” DEFINITIONS FROM A SOUTH AFRICAN TAXATION PERSPECTIVE**

#### **2.2.1 INTRODUCTION**

As noted in the study by Sieberhagen (2008:5) different definitions of small businesses apply to the different taxes available in South Africa. Since the current study focuses on tax relief initiatives relating to income tax, only the definition from an income tax and capital gains tax perspective will be provided. Turnover tax incorporates income tax, CGT, STC and VAT. Turnover tax will be discussed briefly in this study, but because it is relatively new, its review will be limited in scope.

## 2.2.2 DEFINITION IN RELATION TO INCOME TAX

According to SARS (2009b:40), a SBC can be a close corporation (CC), co-operative or a private company. For a business to qualify as a SBC, it has to meet the following requirements as listed in section 12E of the Act (RSA, 1962):

- All the shareholders or members of the SBC must be natural persons (individuals) throughout the tax year, thus it follows that a Group of Companies cannot qualify as a SBC due to this requirement.
- Shareholders or members of the SBC may not hold any shares or interest in the equity of any other company, excluding the following entities:
  - Listed companies;
  - A portfolio in a collective investments scheme contemplated in paragraph (c) of the definition of company in section 1 of the Act;
  - A body corporate, share block company, company incorporated under section 21 of the Companies Act, 1973 or an association of companies;
  - Less than 5% of the interest in a social or consumer co-operative or a co-operative burial society;
  - Friendly societies;
  - Less than 5% of the interest in a primary savings co-operative bank or a primary savings and loans co-operative bank as defined in the Co-operatives Banks Act, 2007, that may provide, participate in or undertake only the following:
    - In the case of a primary savings co-operative bank, banking services contemplated in section 14(1)(a) to (d) of the Co-operatives Banks Act, 2007.
    - In the case of a primary savings and loans co-operative bank, banking services contemplated in section 14(2)(a) or (b) of the Co-operatives Banks Act, 2007.
  - Venture capital companies; or

- If the company, CC or Co-operative has not during any year of assessment carried on any trade and has not during any year of assessment owned assets with a total market value of which exceeds R5 000.
- The gross income of the SBC for the year of assessment does not exceed R14 million;
- Investment income and income from rendering a personal service in aggregate does not exceed 20% of the SBC's total receipts and accruals (except those of a capital nature) and all its capital gains;
- The SBC may not be a personal service provider.

Investment income includes interest, dividends, royalties, rental in respect of immovable property, annuities or income of a similar nature, interest contemplated in section 24J of the Act, *other than interest earned by a co-operative bank*, amounts contemplated in section 24K of the Act and proceeds derived from investment/trading in financial instruments/marketable securities/immovable property (SARS, 2009b:41).

According to the SARS Interpretation Note 9, examples of personal services include services in the field of accounting, actuarial science, architecture, auctioneering, auditing, broadcasting, broking, commercial arts, consulting, draftsman ship, education, engineering, entertainment, health, information technology, journalism, law, management, performing arts, real estate, research, secretarial services, sport, surveying, translation, valuation or veterinary science if that service is performed personally by a person holding an interest in the SBC.

SARS (2009b:11) defines a personal service provider as any company or trust where any service rendered on behalf of such company or trust to a client of such company or trust is rendered personally by any person who is a connected person in relation to such company or trust, and:

- Such person would be regarded as an employee of such client if such service was rendered by such person directly to such client, other than on behalf of such company or trust; or

- Where those duties must be performed mainly at the premises of the client, such person or such company or trust is subject to the control or supervision of such client as to the manner in which the duties are performed or are to be performed in rendering such service; or
- Where more than 80% of the income of such company or trust during the year of assessment, from services rendered, consists of or is likely to consist of amounts received directly or indirectly from any one client of such company or trust, or any associated institution as defined in the Seventh Schedule to the Act, in relation to such client.

According to SARS (2009b:12), a SBC which provides personal services will still be eligible for relief if throughout the year of assessment it employs three or more full-time employees (excluding shareholders/members and connected persons to such shareholders) who are on a full-time basis engaged in the business of the SBC rendering that service.

From scrutinising the above definition of a SBC, this definition seems to be in support of businesses that will generate jobs and not merely generate income. This is evidenced by the exclusion of investment companies (which earn passive income) and personal service companies (formerly employment companies before 1 March 2009) from the SBC definition. According to Arendse *et al.* (2006:14), small business tax incentives are targeted mostly at manufacturing operations, as this sector is more likely to create additional jobs, which is essential in an economy with a high unemployment rate like South Africa.

As confirmed by the SARS National Small Business Unit, a small business is not required to register as a small business in order to qualify for the tax relief initiatives. On completion of the IT14, under the “assessment, audit and other information” section, there are several questions that are aimed at determining whether a taxpayer is a SBC or not. The following questions, amongst others, are included in this section of the IT14:

- The type of entity: Listed public company, unlisted public company, private company, close corporation, co-operative or other.
- Is the company a small business corporation?
- If yes, state the gross income of the company.
- Is the company a personal service provider?
- If yes, how many employees are in the company's services that are non-connected persons?
- Source code of main industry (this is to determine which industry the company is in).
- Profit code of main source of income (this is to determine the source of the income).

It is evident from the above questions that SARS will be in a position to determine whether a company meets the definition of a SBC or not.

### **2.2.3 DEFINITION IN RELATION TO CAPITAL GAINS TAX (CGT)**

According to SARS (2009b:54), a small business for CGT purposes means a business of which the market value of its assets, as at the date of the disposal of the asset or interest does not exceed R5 million. All assets are taken into account, despite their nature; however, liabilities are excluded in determining whether a business qualifies. It is clarified by SARS (2009b:54) that in the case of a company or a partnership, the R5 million threshold mentioned above relates to the organisation as a whole, it is not per the partners' or shareholders' percentage interest.

### **2.2.4 DEFINITION OF A MICRO BUSINESS FOR TURNOVER TAX PURPOSES**

According to SARS (2009b:42), a person qualifies as a micro business if that person is a:

- Natural person (or the deceased or insolvent estate of a natural person that was a registered micro business at the time of death or insolvency); or
- Company, where the qualifying turnover of that person for the tax year does not exceed an amount of R1 million.

According to SARS (2009c:5), “qualifying turnover” is the total amount received by a business for the year of assessment from carrying on business activities.

The following amounts will be excluded from “qualifying turnover” for purposes of determining the R1 million limit:

- Any “receipts of a capital nature” received from conducting business, for example, an amount received from the sale of equipment that was used in the business; and
- Certain government grants that are exempt from “income tax” in terms of the Act (SARS, 2009c:5).

## **2.3 INCOME TAX RELIEF INITIATIVES**

### **2.3.1 INTRODUCTION**

Income tax relief initiatives have been introduced into the tax system to support small businesses. These are tax breaks that are not necessarily available to other businesses as they have been introduced to provide concession for small businesses.

According to Sieberhagen (2008:1), the following tax relief initiatives have been introduced:

- A lower income tax rate and accelerated depreciation for incorporated small businesses (2001);
- Capital gains tax relief for small businesses (2001 and 2006);
- Skills development levies relief (2005);
- Small business tax amnesty (2006/2007);
- Reduced annual VAT returns (2005);
- Introduction of the small retailers VAT package (2005/2006);
- Increased VAT registration threshold (2008); and

- The introduction of a simplified VAT registration process (2008).

Subsequent to 2008 the following tax relief initiatives were introduced:

- The presumptive turnover tax (2009), which is introduced as an alternative to income tax and VAT for businesses with turnover of less than R1 million a year.
- In addition, in support of greater access to equity finance for small businesses in high-tech sectors and junior mining exploration companies, tax incentives amounting to a 30% deduction up-front for venture capital investments in non-mining companies and a 50% deduction for investments in junior mining exploration companies (Manuel, 2008).

## **2.3.2 REDUCED TAX RATE**

### **2.3.2.1 Description of the reduced tax rate relief initiative**

The lower income tax rate, in the form of progressive rates as noted below is only available to small businesses that meet the definition of a Small Business Corporation as defined in section 12E(4)(a) of the Act (Sieberhagen, 2008:14).

A SBC is taxed on the basis of a progressive rate system. For the tax year ending during the period of 12 months ending on 31 March 2010, the following rates were applicable to SBCs:

- 0% of the first R54 200 of taxable income;
- 10% on taxable income in excess of R54 200 but not exceeding R300 000; and
- R24 580 plus a rate of 28% on taxable income in excess of R300 000 (SARS, 2009b:42).

### **2.3.2.2 Objectives and practical application of the reduced tax rate relief initiative**

According to Manuel (2000), the progressive tax rate structure for small businesses was developed to complement a number of existing government initiatives. It was believed that these initiatives will further contribute to the development of the labour intensive small business factor, generating active business income. Since its introduction in 2001, regular adjustments to the monetary thresholds have been made (Sieberhagen, 2008:14).

According to Chen *et al.* (2002:12), reduced tax rates for small businesses could increase after tax earnings, lower the cost of equity funds, increase equity investment and reduce tax distortion in favour of debt. It could therefore influence investment and financing decisions.

On completion of the IT14, the company is only required to calculate the taxable income/loss by capturing the financial statements items in the IT14 and any tax adjustments necessary. All the adjustments would be captured on page four and five of the IT14. The calculated profit (taxable income) or calculated loss (assessable loss) would then be calculated from all this information that has been captured. This is where the taxpayer's responsibility in terms of calculations ends.

The tax payable is calculated by the SARS system. The tax payable will depend on whether the company qualifies as a SBC or not, after it has been determined whether the company qualifies as a SBC or not as per information obtained on page 2. If the company is not a SBC, 28% will be applied to the calculated profit and that will be the tax payable. However, if the company is a SBC, SARS applies the progressive rates.

### **2.3.2.3 Possible pitfalls of the reduced tax rate relief initiative**

As noted previously, taxable income above R300 000 starts attracting tax at the corporate tax rate of 28% which is the rate that is applicable to all other taxpaying companies that are not small businesses. Therefore small business owners might manipulate their financial affairs to remain below the R300 000 threshold. This was also noted by Chen *et*

*al.* (2002:12) where it was stated that the reduced tax rate could discourage small business growth because owners might not want to lose the preferential tax rate by generating income that will exceed the threshold for small businesses. This will result in small businesses not expanding to their full potential therefore resulting in a limited contribution to the economy and job creation.

The need to remain within the R300 000 threshold could also result in some small business owners splitting their company into different taxpaying entities to ensure they qualify for the less than 28% tax rate. This results in the same income being taxed at lower rates under different entities as opposed to being taxed at 28% under the same entity.

According to Chen *et al.* (2002:12), the reduced tax rate could:

- result in inefficiency because favourable tax provisions will benefit existing enterprises and a large number of established small businesses are not significant creators of new jobs or generators of innovation; and
- possibly not benefit small businesses because they have to be profitable to be in a position to utilise the tax credits.

Chamberlain and Smith (2006:13) also noted during their study that in the United Kingdom, an increasing number of self-employed individuals incorporated their business in order to take advantage of the tax rate benefits available to incorporated small businesses, despite this not being a suitable structure for their businesses. For example, an individual who falls within the maximum tax bracket (40% in South Africa) would rather be taxed as a small business than an individual as the rates will be lower for a SBC.

### **2.3.3 ACCELERATED DEPRECIATION**

#### **2.3.3.1 Description of the accelerated depreciation tax relief initiative**

This relief is in terms of section 12E(1) and 12E(1A) of the Act. Therefore the accelerated depreciation incentive also applies to a SBC as defined in section 12E(4)(a) of the Act. Section 12E(1) of the Act (RSA, 1962) applies to machinery brought into use for

manufacturing purposes and allows the small business to write-off 100% of the cost in the year that the asset is brought into use. The assets must be owned by the taxpayer or acquired as purchaser in terms of an instalment credit agreement as defined in the VAT Act (SARS, 2009b:30).

Section 1 of the VAT Act defines an instalment credit agreement to mean any agreement entered into on or after 1 April 2001 whereby any goods consisting of corporeal movable goods or of any machinery or plant, whether movable or immovable:

- a) Are supplied under a sale under which:
  - i) The goods are sold by the seller to the purchaser against payment by the purchaser to the seller of a stated or determinable sum of money at a stated or determinable future date or in whole or in part in instalments over a period in the future;
  - ii) Such sum of money includes finance charges stipulated in the agreement of sale;
  - iii) The aggregate of the amounts payable by the purchaser to the seller under such agreement exceeds the cash value of the supply; and
  - iv):
    - aa) The purchaser does not become the owner of those goods merely by virtue of the delivery to or the use, possession or enjoyment by him thereof; or
    - bb) The seller is entitled to the return of those goods if the purchaser fails to comply with any term of that agreement; or
- b) Are supplied under a lease under which:

- i) The rent consists of a stated or determinable sum of money payable at a stated or determinable future date or periodically in whole or in part in instalments over a period in the future; and
- ii) Such sum of money includes finance charges stipulated in the lease; and
- iii) The aggregate of the amounts payable under such lease by the lessee to the lessor for the period of such lease (disregarding the right of any party thereto to terminate the lease before the end of such period) and any residual value of the leased goods on termination of the lease, as stipulated in the lease, exceeds the cash value of the supply; and
- iv) The lessee is entitled to the possession, use or enjoyment of those goods for a period of at least 12 months; and
- v) The lessee accepts the full risk of destruction or loss of, or other disadvantage to, those goods and assumes all obligations of whatever nature arising in connection with the insurance, maintenance and repair of those goods whilst the agreement remains in force (RSA, 1991).

Section 12E(1A) of the Act (RSA, 1962) applies to non-manufacturing assets which are not written off 100% in terms of section 12E(1) and provides that the asset may be written off as follows:

- 50% of the cost in the year the asset is brought into use;
- 30% in the next year; and
- 20% in the final year.

According to SARS (2009b:30), a SBC can elect to either claim the 50:30:20 deductions or utilise the wear and tear allowance under section 11(e) of the Act (SARS, 2009b:42). These non-manufacturing assets include machinery, plant, utensil, article, aircraft or ship and they must have been acquired on or after 1 April 2005 (SARS, 2009b:30).

The 100% write-off for manufacturing assets as opposed to the 50:30:20 write-off for other sectors supports the statement made by Arendse *et al.* (2006:14) that small business tax initiatives are focused on the manufacturing sector as it is likely to create more jobs than other sectors.

### **2.3.3.2 Objectives and practical application of the accelerated depreciation tax relief initiative**

The accelerated depreciation allowance was implemented with the intention to encourage investment in productive capacity in order to nurture South Africa's economic growth and job creation (Manuel, 2002).

The accelerated depreciation rules increase the investment return that an investor in a small business receives only when the accelerated depreciation reaches a substantial level (Nam & Radulescu, 2007:113). According to Domar (1953:2), this is because accelerated depreciation allows deductions earlier and defers tax to later years when the deductions have been fully utilised, therefore accelerated depreciation increases the net present value of an investment, or its rate of return, above what it would be if there was no accelerated depreciation.

### **2.3.3.3 Possible pitfalls of the accelerated depreciation tax relief initiative**

According to Nam and Radulescu (2007:103), accelerated depreciation rules do not promote private investments in a period of inflation. They only compensate for losses caused by inflation, because historic-cost accounting gives rise to fictitious profits that are subject to tax.

According to FIAS (2006:79), because South Africa does not allow inflation indexing, the accelerated depreciation may not be as "accelerated" as one might think. The study recommended that the declining-balance method might be preferred on both administrative and compliance grounds. This is recommended as there would be no need for small businesses to keep a record of each asset individually.

## **2.3.4 CAPITAL GAINS TAX**

### **2.3.4.1 Description of the capital gains tax relief initiative**

Relief in respect of capital gains tax is only available to companies that meet the definition of a small business as explained above in terms of paragraph 57 of the Eighth Schedule to the Act. In terms of paragraph 57 of the Eighth Schedule to the Act (RSA, 1962), a natural person who operates a small business is allowed to disregard capital gains of up to R750 000 on the disposal of active business assets, if the following has been satisfied:

- The asset had been held for a continuous period of 5 years prior to the said disposal;
- That natural person had been substantially involved in the operations of that small business during that period; and
- That person has attained the age of 55 years or the disposal is in consequence of ill-health, other infirmity, superannuation or death.

As stated in paragraph 57 of the Eighth Schedule to the Act (RSA, 1962) the R750 000 capital gain to be disregarded is over a person's lifetime, therefore it is cumulative and not in relation to each asset disposed off. Furthermore, there is a time limit in terms of when the capital gain to be disregarded has to be realised. It must be realised within two years of the first qualifying disposal.

A natural person who operates more than one small business is obliged to include all qualifying disposals for each such small business when determining the capital gain that is to be disregarded (Sieberhagen, 2008:17)

### **2.3.4.2 Objectives and practical application of the capital gains tax relief initiative**

As stated by Smulders and Oberholzer (2006:8), the government has realised small businesses' importance in creating jobs. In terms of section 57 of the Eighth Schedule of the Act, active assets are those immovable assets to the extent that they are used for business purposes and/or movable assets to the extent that they are used and held wholly

and exclusively for business purposes. According to SARS (2000:321), the objective of having the active assets requirement was to avoid providing relief on assets that generate passive income, as this is not in line with government's objectives of creating employment.

It is probably impractical for SARS to monitor the other requirements that a person must meet before qualifying for this relief, such as the requirement to hold the asset for a continuous period of five years or that the person must have been substantially involved in the operations of the business during the five years.

#### **2.3.4.3 Possible pitfalls of the capital gains tax relief initiative**

According to Chen *et al.* (2002:22), the following three general features of capital gains tax could discourage small business owners from taking risks:

- The absence of the deductibility of losses could from other sources of income impose higher effective tax rates on risky investments;
- Most tax systems permit capital losses to be applied against future capital gains, provided that the losses are carried forward without interest. The resulting gains are shared in full by government, whilst losses, in a present value sense, are only shared partially. This asymmetric treatment of capital gains and losses may discourage risk-taking. Moreover, capital gains taxes could also result in the double taxing of retained profits, because they may be deferred dividends that are reflected in share values; and
- Taxes on realised gains may create an incentive for asset holders to delay the sale of appreciated assets. This reaction may tie up valuable assets that could have been used more productively by small enterprises.

### **2.3.5 VENTURE CAPITAL COMPANIES**

#### **2.3.5.1 Description of the VCC tax relief initiative**

This tax relief initiative is available to qualifying investors in terms of section 12J of the Act. Section 12J of the Act (RSA, 1962) reads as follows:

“(2) There must be allowed as a deduction from the income of a natural person, a listed company or a controlled group company in relation to a listed company as contemplated in the definition of group of companies in section 41, a deduction determined in terms of subsection (3) in respect of expenditure actually incurred by that person or company in acquiring shares issued to that person or company by a venture capital company.

(3) The deduction to be allowed in terms of subsection (2) during a year of assessment in respect of expenditure incurred by:

(a) any natural person must not exceed R750 000: Provided that the amount allowed to be deducted in that year plus the aggregate of the amounts allowed to be so deducted in any other year must not exceed R2.25 million plus so much of that expenditure as has been included in the income of that person in terms of section 8(4);

(b) any company is the expenditure incurred in respect of shares which, together with other shares held by that company and any other company forming part of the same group of companies as defined in section 41 as that company in the venture capital company, do not constitute more than 40 per cent of the equity shares of the venture capital company.”

As explained by SARS (2011:4), qualifying investors can claim income tax deductions in respect of the expenditure actually incurred to acquire shares in approved VCCs. On request from SARS, the investor must verify a claim for a deduction by providing a VCC Investor Certificate that has been issued by an approved VCC, stating the amount of the investment and the year of assessment in which the investment was made.

SARS (2011:4) further explains that the deductions allowed to investors for a year of assessment in respect of expenditure incurred are subject to the following rules:

- **INDIVIDUALS (NATURAL PERSONS):**

Individuals are eligible for a 100% deduction of the amount invested in an approved VCC in exchange for newly issued shares only (in other words, the deduction does not apply to *secondary* trading of VCC shares). The following limits apply to individuals:

- Annual deduction limit amounting to R750 000
- Cumulative lifetime deduction limit (adjusted for recoupment's) amounting to R2.25 million.

As noted by SARS (2011:4), the deduction is recouped if an individual disposes of the VCC shares to the extent of the initial VCC investment (under the general recoupment rules of section 8(4)).

It should be noted that there are no tax relief initiatives for investee companies and for VCCs.

**DIAGRAM 1: How the VCC works**



Source: (SARS, 2011:3)

Once an entity has been approved as a VCC by the commissioner of SARS, the VCC still needs to satisfy the commissioner that during any year of assessment, the following conditions were met, as contemplated in section 12J(6) of the Act (RSA, 1962):

- Complied with all the requirements of a VCC, as contemplated in the definition; or
- Did not derive more than 20% of its gross income from investment income as defined in section 12E(4)(c), other than –

- dividends from qualifying shares; and
- proceeds derived from investment in qualifying shares.

The VCC will lose its VCC status if after the expiry of a period of 36 months (commencing on the date of approval by the Commissioner of a company as a VCC the commissioner is not satisfied that the following conditions are met:

- The expenditure incurred by the company in that period to acquire qualifying shares:
  - In a junior mining company, was at least R150 million; or
  - In any qualifying company other than a junior mining company, was at least R30 million; or
- At least 80% of the expenditure incurred by the company in that period to acquire assets held by the company was incurred to acquire qualifying shares issued to the company by qualifying companies, each of which, immediately after the issue, held assets with a book value not exceeding:
  - R100 million, where the qualifying company was a junior mining company; or
  - R10 million, where the qualifying company was a company other than a junior mining company; or
- No more than 15% of the expenditure incurred by the company to acquire qualifying shares held by the company was incurred for qualifying shares issued to the company by any one qualifying company.

#### **2.3.5.2 Objectives and practical application of the VCC tax relief initiative**

According to SARS (2011:2), one of the main challenges to the economic growth of small businesses is access to equity finance. The VCC tax relief is provided to companies that invest in the VCC so as to assist small businesses to obtain equity finance.

The VCC is intended to be a marketing vehicle that will attract retail investors. It has the benefit of bringing together small investors as well as concentrating investment expertise in favour of the small business sector (SARS, 2011).

The additional requirements that need to be met post the commissioner's approval is to ensure that small businesses are the main benefactors of the VCCs and it is not merely a scheme for investors to obtain tax benefits without making a contribution to small businesses

### **2.3.5.3 Possible pitfalls of the VCC tax relief initiative**

According to SARS (2011), the tax relief is only available to those who are providing equity finance. Even though this initiative is good as it is a way for entrepreneurs to get financing to start their businesses, it is not always the preferred route because control of the company is taken away from the entrepreneur. A tax relief should also be available to those who provide debt finance to enable entrepreneurs to choose their preferred method of financing that will suit their business model.

### **2.3.6 TURNOVER TAX**

According to Sieberhagen (2008:24), it appears that the new presumptive turnover tax envisage a gradual process in which a small business could enter the tax net by utilising the relief provided by the presumptive tax system and as the small business grows, it could become a SBC (utilising section 12 of the Act) and it could ultimately be transferred to the standard legislation process.

For the tax year ending during the period of 12 months ending on 31 March 2010, the following rates were applicable:

- 0% on R0 – R100 000 taxable turnover;
- 1% on taxable turnover exceeding R100 000 but not exceeding R300 000;

- R2 000 plus 3% on taxable turnover exceeding R300 000 but not exceeding R500 000;
- R8 000 plus 5% on taxable turnover exceeding R500 000 but not exceeding R750 000;
- R20 500 plus 7% on taxable turnover exceeding R750 000 (SARS, 2009b:42).

The relief is intended to alleviate the compliance burden that is faced by small businesses, to encourage small businesses to enter the tax net (broadening the tax base), to lower the tax compliance cost of a small business and to assist small businesses to overcome the financing constraints that they face (Sieberhagen, 2008:24).

As part of government's broader mandate to encourage entrepreneurship and create an enabling environment for small businesses to survive and grow, the National Treasury and SARS announced initiatives in 2008 to reduce the tax compliance burden on businesses with an annual turnover of up to R1 million (SARS, 2009c:2). According to Manuel (2008:21), this initiative, together with the increase of the VAT registration threshold will significantly reduce paperwork for small businesses whilst encouraging regular bookkeeping in preparation for migration to the normal income tax system.

The turnover tax reduced the number of taxes that need to be complied with as it incorporates Income Tax, STC, CGT and VAT. As noted in chapter one, small businesses found VAT to be the most time consuming tax type, therefore this will reduce the compliance burden on small businesses. As discussed in chapter one, a study by Abrie and Doussy (2006:11) also recommended a reduction in the number of taxes that small businesses have to administer. The turnover tax is another way to achieve a reduction in the compliance burden for small businesses.

## **2.4 CONCLUSION**

Businesses that are not incorporated will not meet the definition in the Act which entitles small businesses to these tax reliefs. This is a problem, considering that due to the

administrative burden of registering a business, most taxpayers prefer running their businesses as a sole proprietor. This has adverse effects because these non-incorporated businesses do not utilise the tax benefits associated with small businesses and they end up paying tax at the individual's rate which at some instances can be higher than the corporate tax rate.

As noted above, these tax reliefs are based on various definitions of a small business and on the legal form in which the enterprise conducts its business (Sieberhagen, 2008:24).

The next chapter analyses the tax relief initiatives applied in China and the USA. A comparison is drawn between these tax relief initiatives and the South African tax relief initiatives.

## **CHAPTER 3**

### **TAX RELIEF INITIATIVES APPLIED IN OTHER COUNTRIES**

#### **3.1 INTRODUCTION**

This chapter will discuss the tax relief initiatives that are adopted in China and the USA. A comparison is then drawn with tax provisions available in South Africa. A summary of tax relief initiatives applied in other countries will also be provided. The summary will be split between tax reliefs that are also available in South Africa and tax reliefs that are not yet available in South Africa.

#### **3.2 TAX RELIEF INITIATIVES IN CHINA**

According to Yaobin (2007), the Chinese government recognises the important role that small businesses play in the economic growth of the country, especially in the following areas: employment, technology innovation and social stability. Small businesses are, however, faced with obstacles such as: asymmetry of financing information, high risk of investment and business operation and positive externality of technology innovation (Yaobin, 2007).

Like many other countries, China realises that tax can play an important role in the development of small businesses and economic growth. As noted by Yaobin (2007), tax is used in the following ways:

- Improve tax environment for small businesses by tax reform and modernisation of tax administration;
- Tax incentive policy adopted to resolve bottle-neck problems faced by small businesses; and
- Strengthening of bilateral and multilateral tax coordination.

The tax incentive policies (tax relief initiatives) adopted by the Chinese government will be discussed in this study. The following are the tax relief initiatives implemented by the Chinese government:

### **3.2.1 PREFERENTIAL TAX STATUS**

According to Xinhua (2011), a small business in China only needs to pay half of income tax if the amount of its tax due is 30 000 yuan (approximately R31 000) or lower annually. Additionally, the income tax rate is set at 20% for small businesses, compared with 25% for other companies.

This tax relief initiative is similar to the reduced tax rate that is available to small businesses in South Africa, the difference is that in South Africa the rates are progressive and the preferential rate is available up to a certain taxable income (R300 000 for the 2010 year of assessment). Once taxable income exceeds the R300 000 threshold, a normal tax rate of 28% that is applicable to all businesses applies.

Having a fixed lower rate, as it is applied in China, eliminates the risk associated with the South African progressive rate where small businesses may attempt to manipulate their financial affairs to ensure they do not reach the R300 000 threshold.

### **3.2.2 TAX EXEMPTION TO ENCOURAGE FINANCING TO SMALL BUSINESSES**

For venture capital investment companies taking equity investments in unlisted high-tech small businesses for more than two years, the venture capital business taxable income can be offset by up to 70% of its investment when it holds the shares up to two years; if the taxable income is not enough to be offset, it can be carried forward to be offset in future years (AGN-AP, 2009).

According to Yaobin (2007), financial corporations who provide guarantee for loans to small businesses are eligible for an exemption from business tax.

Even though the tax exemption is not given to the small business but to the venture capital company investing in the small business or the financial corporation providing the guarantee, this tax relief benefits the small businesses because companies will be interested in providing finance to small businesses since they will obtain a tax benefit in the form of a business tax exemption, therefore it will be easier for small businesses to obtain access to capital.

This tax relief is similar to the VCC's tax relief initiative that is available in South Africa to assist small businesses in obtaining equity finance. In South Africa the VCC acts as a vehicle in which investors contribute funds, therefore the investors are the ones who receive the tax relief as opposed to China where the tax relief is available to the VCC. The effect of this initiative is similar because it is those who are making the funds available to small businesses who are obtaining the tax relief.

South Africa does not have any tax relief for debt providers or guarantors of debt as is available in China.

### **3.2.3 R&D TAX CREDITS**

According to Kim (2008), China has implemented dedicated small business R&D funds which provide start-up capital for techno-entrepreneurs and partial subsidies for developing technology based small businesses. Market entities that donate to these R&D funds obtain a tax deduction of up to 150%.

In South Africa, section 11D of the Act provides for a 150% deduction on operating expenses relating to research and development. This differs from the situation in China in that China creates R&D funds for small businesses and companies get tax deductions for contributing to these funds (similar to the VCC tax relief in South Africa where investors into the VCC obtain the tax benefit). In South Africa, however, the R&D tax deduction is available when you make the actual expenditure on R&D and it is not applicable specifically to small businesses.

The creation of the funds is another way that China makes capital accessible to entrepreneurs whereas in South Africa, obtaining funds for R&D might be an obstacle in itself. Therefore the 150% tax deduction available might not even be utilised by small businesses since they do not have the funds to spend on R&D.

### **3.3 TAX RELIEF INITIATIVES IN THE UNITED STATES OF AMERICA**

On 16 September 2010, the Creating Small Business Jobs Act of 2010 (“Senate Bill”) was passed in the USA (Anon, 2010). Included in this Senate Bill were the following small business tax reliefs:

#### **3.3.1 BONUS DEPRECIATION**

Prior to the passing of this Senate Bill, small businesses were allowed a 50% depreciation of the assets that they brought into use in 2008 and 2009 (Anon, 2010). After this Senate Bill was passed, small businesses are now allowed to deduct 100% depreciation on the assets that are brought into use from 2010 (Lee, 2010).

This tax relief initiative is similar to the accelerated depreciation that is available to small businesses in South Africa. The difference is that in the USA, all small businesses get the 100% depreciation regardless of the industry, whereas in South Africa, only manufacturing companies get the 100% depreciation immediately and small businesses in other industries get the depreciation as follows: 50% in year 1, 30% in year 2 and 20% in year 3. The South African government assumes that manufacturing is the biggest creator of jobs; hence it gets the preferential rate over other industries.

#### **3.3.2 DEDUCTION OF START-UP EXPENDITURES**

According to Lee (2010), small businesses are allowed to deduct start-up expenditures up to \$10 000 (approximately R65 000). This provision has been included to promote entrepreneurship (Anon, 2010) and according to Lee (2010), this will offer an immediate

incentive for someone with a new business idea to invest in starting up a new small business today.

Start-up expenditures are defined as expenses paid or incurred in connection with investigating or creating an active trade or business, which would be deductible if paid or incurred in connection with the operation of an existing trade or business (Anon, 2010).

This tax relief is similar to a deduction in South Africa in terms of section 11A of the Act which allows deductions in respect of expenditure and losses incurred prior to commencement of trade (pre-trade expenses). Pre-trade expenses are not defined in the Act, but they are defined in Interpretation Note 51 as “expenditure and losses actually incurred by a person before the commencement of and in preparation for carrying on a trade”. This deduction is available to all businesses in South Africa and is not aimed specifically at small businesses

### **3.3.3 EXPENSING OF CERTAIN REAL PROPERTY**

In the USA, taxpayers may elect to write-off the costs of certain tangible personal property that is purchased for use in the active conduct of a trade or business in the year of acquisition in lieu of recovering these costs over time through depreciation (Anon, 2010). According to Lee (2010), small businesses qualify to immediately write-off \$500 000, whilst raising the level of investments at which the write-off phases out to \$2 million. Within these thresholds, the Senate Bill allows taxpayers to expense up to \$250 000 of the cost of qualified leasehold improvement property, qualified restaurant property and qualified retail improvement property (Anon, 2010). This relief encourages business investments because small businesses know that they will earn a larger break on their taxes for that year Lee (2010).

Unfortunately South Africa does not have a similar tax relief which allows immediate expensing of tangible property for small businesses. The only allowances available on buildings are generally 5% on the cost of the building and this is available to all businesses

regardless of whether it is a small business or not. The following building allowances are deductible in South Africa:

- Annual allowance equal to 5% on the cost of industrial buildings or of improvements to existing industrial buildings in terms of section 13 of the Act;
- Annual allowance equal to 5% of the cost of new and unused commercial buildings or improvements to commercial buildings which were contracted for on or after 1 April 2007 in terms of section 13*quin* of the Act;
- Annual allowance equal to 5% of the cost of hotel buildings or of improvements to existing hotel buildings in terms of section 13*bis* of the Act;
- For buildings within specified urban development zones:
  - New building or existing building is extended: A deduction equal to 20% of the cost of the erection or erection in the year in which the building is brought into use and 8% in each of the succeeding 10 years in terms of section 13*quat*(3)(a) of the Act;
  - Improvements on a building: A deduction equal to 20% of the cost of the improvement in the year in which it is brought into use and 20% in each of the succeeding four years in terms of section 13*quat*(3)(b) of the Act;
  - In terms of section 13 *quat*(3A), if the building is a low cost residential unit, the above deductions are increased by 5% each.

**TABLE 2: Comparison of the building allowances**

USA: Description	USA: Tax Allowance	SA: Description	SA: Tax Allowance
Tangible personal property used for business purposes.	\$500 000 immediate write-off (small businesses only).	Industrial, commercial and hotel buildings.	5% annually of the cost of the building (all businesses).
None	None	Buildings within specified urban development zones	Minimum of 20% in the year the building is brought into use and minimum of 8% in succeeding years (all businesses).
Qualified leasehold improvement property, qualified restaurant property and qualified retail improvement property.	Up to \$250 000 of the improvements (small businesses).	Improvements on industrial, commercial and hotel buildings.	5% annually of the cost of the improvements (all businesses).
None.	None.	Improvements on buildings within specified urban development zones.	Minimum 20% in the year the building is brought into use and minimum of 20% in succeeding years (all businesses).

It is evident from comparing the building allowances granted in South Africa and those granted in the USA that South Africa is not doing enough to encourage investment in buildings, which could lead to most businesses renting out their properties rather than buying them.

### **3.3.4 ZERO TAXES ON CAPITAL GAINS FROM KEY SMALL BUSINESS INVESTMENTS**

The Senate Bill temporarily excludes 100% of the gain from the sale of certain small business stock acquired at original issue and held for more than five years (Anon, 2010). It has been noted that qualifying business stock is from a corporation whose gross assets do not exceed \$50 million (including the proceeds received from the issuance of the stock) and who meets a specific active business requirement (Anon, 2010). This tax relief has been classified under provisions to provide access to capital.

This tax relief is not available in South Africa. The aim of the tax relief initiative is to offer tax benefits to those who provide equity finance to small businesses; therefore South Africa could argue that they already have a tax relief initiative to encourage equity finance through the VCC tax relief initiative as discussed in chapter 2.

### **3.3.5 A FIVE-YEAR CARRYBACK OF GENERAL BUSINESS CREDITS**

According to Lee (2010), the Senate Bill allows small businesses to “carry-back” qualifying small business credits to offset five years of taxes, thereby reducing their taxes.

South Africa does not apply the business credits model; therefore this tax relief initiative is not applicable to South Africa. Business credits are a good way to encourage responsible business activities.

### **3.3.6 DEDUCTION OF HEALTH INSURANCE COSTS FOR SELF-EMPLOYED**

This tax relief initiative allows business owners to deduct the cost of health insurance incurred for themselves and their family members. Health insurance is similar to medical aid in South Africa.

South Africa allows individuals to deduct medical aid contributions, whether they are business owners or not. However, unlike in the USA where the full cost of health insurance is deductible, in South Africa the medical aid contribution is limited. According to SARS (2010:2), the limited amount applicable to the 2010 year of assessment is based on the number of beneficiaries included in the membership; the limitation is as follows:

- R625 for the employee only;
- R1 250 for the employee and one dependant; or
- R1 250 for the employee and first dependant plus R380 for every additional dependant thereafter.

### 3.3.7 TAX RELIEF AND SIMPLIFICATION FOR CELLULAR TELEPHONE DEDUCTIONS

The Senate Bill removes cellular telephones from the definition of listed property so that their cost can be deducted or depreciated like other business property, without onerous recordkeeping requirements (Anon, 2010).

In South Africa, section 11(e) of the Act allows a wear and tear deduction on certain assets that are used for the purpose of trade. Interpretation Note 47 provides the write-off periods acceptable to SARS for specific assets. A cellular telephone is one of the assets included in this Interpretation Note and a write-off period of two years is considered acceptable to SARS. This deduction is available to all businesses that are trading regardless of whether they are small businesses or not.

**TABLE 3: Comparison of cellular telephone write-off period**

	USA	SA
Cellular telephones write-off period	1 year	2 years

### 3.3.8 LIMITATIONS ON PENALTIES FOR ERRORS IN TAX REPORTING

According to Lee (2010), instead of the penalty on failure to report certain transactions being a fixed dollar amount, the penalty will now be a percentage of the tax benefits from the transaction. As noted by Lee (2010), the fixed dollar amount penalty imposed a disproportionate large penalty on small businesses in certain circumstances.

South Africa also imposes penalties on non-compliance with certain tax regulations; this is as per section 75B(3) of the Act which allows the Minister of Finance to make specified regulations dealing with penalties. In South Africa, there are no specific penalties applicable only to small businesses; however, an advantage is that most of the penalties are percentage rather than fixed monetary amounts which is similar to the USA where they apply percentages rather than monetary amounts, as noted above.

According to PWC (2011:298), the following are some of the penalties relating specifically to provisional tax in South Africa:

- Penalty on late payment of provisional tax due amounting to 10% of the provisional tax amount not paid by the due date;
- Penalty on underestimation of the second estimate amounting to 20% of the underpayment; and
- Penalty on late submission of the second estimate amounting to 20% of the tax as finally assessed less any provisional tax paid in time.

In terms of the Fourth Schedule to the Act, a company is required to submit two provisional tax returns and payments, if applicable, with a third provisional return being an optional top up payment if the two provisional payments were not sufficient.

## **3.4 SUMMARY OF TAX RELIEF INITIATIVES APPLIED IN OTHER COUNTRIES**

### **3.4.1 INTRODUCTION**

The previous section specifically discussed and compared the tax relief initiatives in China and USA; however, there are other countries that also apply tax relief initiatives for small businesses. The study conducted by Sieberhagen (2008) summarised the tax relief initiatives applied in other countries. The tax relief initiatives applied in other countries are summarised below, for the purpose of this literature review, the countries in which these policies are applied will not be mentioned. The tax relief initiatives will be split between those tax relief initiatives that are similar to the ones applied in South Africa and also those that are not applied in South Africa.

### **3.4.2 TAX RELIEF INITIATIVES APPLIED IN OTHER COUNTRIES THAT ARE SIMILAR TO THOSE AVAILABLE IN SOUTH AFRICA – FOR EXAMPLE:**

- Lower corporate tax rates and/or no corporate taxes below a specific monetary threshold;
- Accelerated depreciation and/or immediate expensing of asset cost if the asset cost is below a specific monetary threshold;
- No CGT on the sale of shares or business assets held by individuals or if the consideration is below a specific threshold; and
- Presumptive turnover taxes (Sieberhagen, 2008:32).

### **3.4.3 TAX RELIEF INITIATIVES APPLIED IN OTHER COUNTRIES THAT ARE NOT AVAILABLE IN SOUTH AFRICA – FOR EXAMPLE:**

- No capital gains tax at either corporate or individual level;
- Capital gains tax rates that decline with the length of the holding period of the investment either for individuals or incorporated companies;

- Roll-over relief on capital gains realised on the sale of the small business investment when funds are reinvested in another small business (*similar to corporate rules available to group of companies in section 41 to section 45 of the Act*);
- Favourable loss relief (investment losses considered to be an ordinary loss rather than a capital loss);
- Special corporate tax provisions to help small businesses overcome impediments to start-up and growth through the granting of tax holidays (income and other taxes) or generous investment deductions;
- Generous or targeted R&D tax incentive programmes, for example, R&D tax credits for small businesses;
- Specific legislation aimed at reducing the cost of compliance for small businesses. Sieberhagen (2008:34), provided the following two examples:
  - New Zealand's tax authorities pay an allowance to payroll agents to manage the payroll for the first five employees of all businesses.
  - In Ireland, the estimated tax to be paid by a small business can be calculated as 100% of the prior year's liability (*similar to the basic amount provided by SARS on completion of provisional tax returns*).
- Tax relief to address specific market failures or to direct the market. Sieberhagen provided the following example relating to China as found in Chen (2006:143):
  - *Targeting employment* – New urban job agencies are eligible for exemption from business taxes for three years if the agency is able to find jobs of which 60% of the total jobs found are for unemployed workers (if it is greater than 30%, the agency receives a 50% discount on income taxes for two years). New businesses in service, commercial and trading enterprises are exempted from urban maintenance and construction tax, additional education fees, and income tax for three years if they employ no less than 30% of laid off workers in the first year of operation and the employment contract is for no less than three years.

Laid off workers who start an own business enjoy an exemption from various administration for three years.

- *Promotion of transportation; post and telecommunication; consultation; information industry and technological services* – By means of an income exemption from income tax in the first year and a 50% discount in the second year
- *Establishment of fiscal funds* – To encourage technological innovation (Innovation Fund), promote commercialisation and the transfer of sophisticated and practical technologies in high-tech agricultural enterprises (Commercialisation Fund for Agricultural Research) and to encourage small businesses to participate in global competition, explore international markets and expand exports (Fund for International Market Exploitation).

### **3.5 CONCLUSION**

As noted above, there are many tax relief initiatives that are applied in other countries that are not applied in South Africa. This is to be expected as countries have different histories, economies and other circumstances, therefore what might work in one country will not necessarily work in another country.

The next chapter will draw conclusions on whether the South African tax relief initiatives are on the right track, taking into account the discussions in chapter 2 and the current chapter. This will be done by noting the tax relief initiatives that are a positive and also those that are negative. The next chapter is therefore a summary of what South Africa is doing right and what they can still improve on.

## CHAPTER 4

# ASSESSMENT OF THE TAX RELIEF INITIATIVES IMPLEMENTED IN SOUTH AFRICA

### 4.1 INTRODUCTION

As noted in previous chapters, SARS has implemented some tax relief initiatives aimed at incentivising small businesses. In comparison with other countries, there are many more tax relief initiatives that are not available in South Africa. However, not all the tax relief initiatives applied in other countries would be applicable in South Africa and as such it would be irrelevant to include them within the South African tax system. It should not be about the *quantity* but about the *quality* of the tax relief initiatives. In other words, those tax relief initiatives that are available should be practical in the application thereof and they should be able to encourage the development of small businesses.

This chapter will draw conclusions on the problem areas of some of the tax relief initiatives and also highlight the pros of some of these tax relief initiatives.

### 4.2 POSITIVE TAX RELIEF INITIATIVES

#### 4.2.1 ACCESS TO FINANCE

Some small businesses are never started because the entrepreneurs lack the capital to get their ideas off the ground. Therefore they never get a chance to utilise the tax relief initiatives hence, before the government provides tax relief initiatives to assist small businesses that are already operating, they need to consider helping those businesses that are non-existent because the entrepreneurs do not have finances to start their businesses. Thus, access to finance can be considered one of the most pivotal needs for entrepreneurs.

In South Africa, potential business owners are able to obtain capital in the form of equity. A good attribute of equity, as opposed to debt, is that there is no repayment obligation; this is

an advantage particularly in the initial stages when small businesses operate at a loss and cash flow is stretched. If equity financed, there is no need to be concerned about repayments, as in debt financing which if there is default in repayment, it will have an impact on the credit record of the business, making it even more difficult to obtain financing in the future.

#### **4.2.2 JOB CREATION**

The main objective of implementing tax relief initiatives for small businesses is to encourage the growth of small businesses that will create jobs, hence the fact that the definition of small businesses that qualify for these tax relief initiatives has been devised in such a manner that small businesses that are unlikely to create jobs have been excluded from this definition and as such they will not qualify for these tax relief initiatives.

The exclusion of companies that only earn passive income or provide limited jobs (i.e. personal service companies) is to be commended as this definition will ensure that only small businesses that meet the job creation objectives are obtaining the tax benefits.

#### **4.2.3 ENCOURAGE CAPITAL INVESTMENT**

The accelerated depreciation tax relief is also a good one because it allows small businesses to get the wear and tear allowance immediately (in the case of manufacturers) and accelerated over three years for other small businesses. Therefore small businesses can make capital investments and the wear and tear allowance will reduce their taxable income, resulting in less taxes being payable to SARS, which is an advantage especially in the early years when cash flow is still stretched and every cent that can be saved is crucial. A requirement which could have been imposed to qualify for this tax relief is that the assets should be bought in South Africa, which would have boosted South African manufacturers. However, this is not considered as a major problem.

#### **4.2.4 REDUCED TAX RATES**

As mentioned in this study before, in the initial stages when small businesses are still growing, cash flow is stretched and small businesses need every cent they can save, therefore the introduction of reduced tax rates helps these small businesses as they do not have to pay as much tax as already established businesses.

As noted in Chapter one in a study performed by Venter and Clercq (2007b:147), reduced tax rates were the most preferred option by manufacturing small businesses to reduce tax compliance burdens. Therefore the government has implemented what small businesses consider an important tax relief initiative to reduce the tax burdens they are faced with.

Refer to the next section on why the progressive rate structure that is applied in South Africa could also be considered a drawback and not necessarily good to achieve government's objectives.

#### **4.2.5 OTHERS**

There are some tax provisions that are not aimed specifically at small businesses which nevertheless benefit small business owners, such as:

- Deduction of pre-trade expenses (similar to a tax relief available in USA);
- Deduction for R&D (similar to a tax relief in China);
- Cellular telephone deductions (similar to a tax relief in USA); and
- Medical aid deductions (similar to a tax relief in USA).

### **4.3 NEGATIVES**

#### **4.3.1 REDUCED TAX RATES**

Even though the reduced rate tax relief initiative is advantageous because relatively small businesses do not have to pay as much tax as bigger and more established businesses,

there are some disadvantages to it. As mentioned in chapter 2, business owners might want to manipulate their business so that they remain within the particular threshold so that none of their taxable income can be taxed at the 28% tax rate.

The fixed reduced rate rather than the progressive rate for small businesses is preferable as it lessens the risk of small business owners manipulating their financial affairs to remain within a particular threshold so that they can qualify for a reduced rate.

#### **4.3.2 ACCESS TO DEBT FINANCE**

South Africa only provides tax relief to equity finance providers and not debt finance providers. Even though it was noted that the VCC tax relief is a positive, not all small business owners might be comfortable with equity financing as it reduces their independence because someone else owns their company. Therefore it would be a good idea if debt finance providers could also be given tax relief for providing financing to small businesses. This would give the small business owner the choice of their preferred financing method which suits their business model.

#### **4.3.3 REDUCTION IN INTEREST AND PENALTIES**

As noted in chapter one, in a study performed by Venter and Clercq (2007b:147), the most preferred option by small businesses in all sectors to reduce tax compliance burdens is the reduction in interest and penalties.

There are no specific tax relief initiatives for small businesses in relation to interest and penalties. As noted in the previous chapter, the penalties that are payable on underestimation of the second estimate (relating to the second provisional tax) are steep and small businesses are more likely to make an error in their estimate especially during the first few years of operating when business activities are not yet stable and profits go up and down, therefore the current penalties that are applicable to provisional taxpayers could be detrimental to small businesses.

The next chapter will make recommendations to improve the tax burden for small businesses.

## CHAPTER 5

### CONCLUSION AND RECOMMENDATIONS

#### 5.1 CONCLUSIONS AND RECOMMENDATIONS

As noted in the previous chapter, there are tax relief initiatives that are applied in other countries that South Africa has not adopted yet. This final chapter will make recommendations of the tax relief initiatives that could be introduced to the South African tax system.

##### 5.1.1 RECOMMENDATIONS

It is recommended that the following tax relief initiatives be introduced to the South African tax system:

- CGT rates that decline with the length of the holding period of the investment – This would encourage small businesses to fully utilise their assets before disposing them. This could also prevent the abuse of the accelerated depreciation tax relief where small businesses could just buy assets so that they get the accelerated depreciation.
- Roll-over relief on capital gains realised on the sale of the small business investment when funds are reinvested in another small business – This is similar to the corporate tax rules where if an asset is being sold to a company within the same group of companies there is no CGT until that asset is sold to a party outside the group.
- Exemption from tax for employment agencies that are able to find jobs for a certain number of unemployed workers – This encourages employment agencies to place unemployed people rather than moving employees from one company to another which has no effect on job creation.

From discussions in chapter one and analysis of the South African tax relief initiatives, the following could also have a positive impact on small businesses if they are implemented:

- A fixed reduced rate for all small businesses regardless of the taxable income. Refer to 4.3.1 above for a discussion on why this is preferred to the progressive reduced rates.
- Tax relief for debt providers similar to that offered to equity providers.
- Reduction in penalties payable by small businesses. Refer to 4.3.3 above for a discussion on why small businesses should obtain preferential treatment in this regard.
- As noted in chapter 1, compliance still remains a big obstacle for small businesses. In a study performed by the USAID (2008:85), the following were the overall conclusions in terms of improving levels of tax compliance in the small businesses sector: 30% of small business corporations believed that there was nothing that SARS could do to improve compliance. This view corresponded to the high rates of compliance by these respondents, indicating well-established organisational routines for ensuring these levels of compliance.
- 5% could not think of anything specific to suggest, but this should not necessarily be interpreted as satisfaction on their part.
- The most frequently cited suggestions for improving compliance related to issues of access to SARS and the nature and quality of service provided by SARS to small businesses.
- Businesses prioritised the location of SARS offices, indicating a need to have them closer to where businesses were located. This was presumably to lower the time and travel costs associated with visiting SARS offices.
- In general, there was a need to increase overall levels of service from SARS, and specifically with respect to the efficiency of VAT refunds (the delays thereof undoubtedly had significant cash flow implications for small businesses, particularly those in the lowest turnover categories).
- Businesses also requested more SARS officials to be on hand to address their issues, and wanted direct access to assessors (the latter issue was also identified in the tax practitioner study).
- Small businesses made various suggestions with regard to tax policy and penalties and interest:

- One tenth indicated a need for reducing current tax rates;
- Just under 5% suggested reducing rates for penalties and interest;
- One sixth of all businesses indicated the need to simplify rules, procedures and materials;
- Procedures for registration and filing should be simpler and more easily accomplished;
- Tax forms should be shortened to enable quicker completion thereof; and
- Forms should be simplified in terms of the language used and more explanatory notes should be provided.

### **5.1.2 CONCLUSION**

From the analysis and discussions in this chapter and previous chapters, South Africa seems to be doing well in terms of assisting small businesses by way of tax relief initiatives. However, this does not imply that South Africa has reached its optimal level in terms of the support that could be granted to small businesses, there is always room for improvement, as pointed out under recommendations above. As illustrated above, there are tax relief initiatives that are applied in other countries that could have a positive effect on the small businesses in South Africa and therefore on the economy.

It should be noted that tax relief initiatives are merely one of the ways that can be used to encourage development of small businesses. What is needed is a united strategy that is consistent amongst all the regulators and incentive policies from other regulators as well. For example, the USA has a “small businesses jobs Act” that incorporates all the incentive policies, not only tax policies, which will be applied to encourage small businesses. There are many regulations that businesses need to comply with and small businesses are no exception; some small businesses are not in compliance because they do not even know about those regulations. A bill or Act similar to that provided by the USA could help small businesses find all the information they need in one place and they could therefore utilise all the incentive policies available to them and enable them to focus their energy on growing their businesses as opposed to spending more time trying to be compliant.

The conclusion reached from this study is that South Africa has done well in its endeavour to encourage economic growth via small businesses; however the government can still do more as noted under recommendations above.

## LIST OF REFERENCES

Abrie, W. & Doussy, E. 2006. *Tax compliance obstacles encountered by Small and Medium Enterprises in South Africa*, 7–11. [Online] Available from: [http://innopac.up.ac.za/validate?url=http%3A%2F%2F0-search.sabinet.co.za.innopac.up.ac.za%3A80%2FWebZ%2Fimages%2Fejour%2Fmeditari%2Fmeditari\\_v14](http://innopac.up.ac.za/validate?url=http%3A%2F%2F0-search.sabinet.co.za.innopac.up.ac.za%3A80%2FWebZ%2Fimages%2Fejour%2Fmeditari%2Fmeditari_v14) [Accessed: 2009-06-15].

AGN-International Asia/Pacific (AGN-AP). 2009. *Small-middle sized enterprises enjoy special tax preferences*. [Online] Available from: <http://www.agn-ap.org/news/0911prc.htm> [Accessed 2011-04-23].

Anon. 2010. Senate passes small business tax relief. *Journal of Accountancy*, September. [Online] Available from: <http://www.journalofaccountancy.com/Web/20103340.htm>.

Anon. 2010. *Summary of the Small Business Jobs Act*. [Online] Available from: [http://www.adp.com/tools-and-resources/compliance-connection/tax-incentives/resources/legislative-updates/-/media/Compliance/Summary\\_Small\\_Business\\_Jobs\\_Act.ashx](http://www.adp.com/tools-and-resources/compliance-connection/tax-incentives/resources/legislative-updates/-/media/Compliance/Summary_Small_Business_Jobs_Act.ashx) [Accessed 2011-04-22].

Anon. Not dated. *Business Credit*. [Online] Available from: <http://www.investopedia.com/terms/g/general-business-tax-credit.asp> [Accessed 2011-04-23].

Arendse, J., Karlinsky, S., Killian, S. & Payne, G. 2006. *Mixed blessing of being designated a small business*, 3–17. [Online] Available from: <http://scitation.aip.org/getabs/servlet/GetabsServlet?prog=normal&id=JLTRXX000005000001000016000001&idtype=cvips&gifs=yes> [Accessed: 2009-05-29].

AskOxford.com, Not dated. *Incorporate*. [Online] Available from: [http://oxforddictionaries.com/view/entry/m\\_en\\_gb0405690#m\\_en\\_gb0405690](http://oxforddictionaries.com/view/entry/m_en_gb0405690#m_en_gb0405690).

Chamberlain, D. & Smith, A. 2006. *Recent findings on tax-related regulatory burden on SMMEs in South Africa*, 1–13. [Online] Available from: [http://www.commerce.uct.ac.za/research\\_units/dpru/WorkingPapers/PDF\\_Files/WP\\_06-105.pdf](http://www.commerce.uct.ac.za/research_units/dpru/WorkingPapers/PDF_Files/WP_06-105.pdf) [Accessed: 2009-05-29].

Chen, D., Lee, F.C. & Mintz, J. 2002. *Taxation, SMMEs and entrepreneurship*, 1–47. [Online] Available from: <http://lysander.sourceoecd.org/vl=2290305/cl=30/nw=1/rpsv/cgi-bin/wppdf?file=5lgsjhvj7lmr.pdf> [Accessed: 2009-05-29].

Chen, J. 2006. *Development of Chinese small and medium-sized enterprises. Journal of Small Business and Enterprise Development*, 13(2):140–147. [Online] Available from: [http://innopac.up.ac.za/validate?url=http%3A%2F%2F0-search.sabinet.co.za.innopac.up.ac.za%3A80%2FWebZ%2Fimages%2Fejour%2Fmeditari%2Fmeditari\\_v14](http://innopac.up.ac.za/validate?url=http%3A%2F%2F0-search.sabinet.co.za.innopac.up.ac.za%3A80%2FWebZ%2Fimages%2Fejour%2Fmeditari%2Fmeditari_v14) [Accessed: 2009-05-29].

Domar, E.D. 1953. The case for accelerated depreciation, 1–8. [Online] Available from: <http://www.rbt.treasury.gov.au/publications/paper3/download/ch2.pdf> [Accessed 2011-06-30].

Duncan, F. 2005. 2005 Budget's bonanza for small businesses. *Moneyweb's TAX BREAKS*, 231:5.

FIAS. 2006. *Sector study of the effective tax burden*. [Online] Available from: [http://www.ifc.org/ifcext/fias.nsf/AttachmentsByTitle/Zambiataxconference\\_BackgroundpapersSouthAfrica/\\$FILE/SOUTH+AFRICA-METR+Study\\_+April+2006final.pdf](http://www.ifc.org/ifcext/fias.nsf/AttachmentsByTitle/Zambiataxconference_BackgroundpapersSouthAfrica/$FILE/SOUTH+AFRICA-METR+Study_+April+2006final.pdf) [Accessed: 2009-05-25].

FIAS. 2007. *Tax compliance burden for small businesses: A survey of tax practitioners in South Africa*. [Online] Available from: <http://www.saipa.co.za/documents/Survey-World%20Bank-Tax%20Compliance%20Burden-Report%20Summary-September%202007.pdf> [Accessed: 2009-05-25].

Kim, J.Y. 2008. Technology Policies for SME innovation. [Online] Available from: [http://www.apec-smeic.org/newsletter/newsletter\\_read.jsp?SEQ=576](http://www.apec-smeic.org/newsletter/newsletter_read.jsp?SEQ=576).

Lee, J. 2010. *President Obama signs Small Business Jobs Act – Learn what's in it.* [Online] Available from: <http://www.whitehouse.gov/blog/2010/09/27/president-obama-signs-small-business-jobs-act-learn-whats-it> [Accessed: 2011-04-22].

Manuel, T. 2000. *2000 Budget speech.* [Online] Available from: <http://www.info.gov.za/speeches/2000/000223202p1001.htm> [Accessed: 2009-06-15].

Manuel, T. 2002. *2002 Budget speech.* [Online] Available from: <http://www.info.gov.za/speeches/2002/020220246p1001.htm> [Accessed: 2009-06-15].

Manuel, T. 2006. *2006 Budget speech.* [Online] Available from: <http://www.info.gov.za/speeches/2006/06021515501001.htm> [Accessed: 2009-06-15].

Manuel, T. 2008. *2008 Budget speech.* [Online] Available from: <http://www.info.gov.za/speeches/budget/budget2008.pdf> [Accessed: 2009-06-15].

Mouton, J. 2001. *How to succeed in your Master's and Doctoral studies: a South African guide and resource book.* Pretoria: Van Schaik Publishers.

Nam, C.W. & Radulescu, D.M. 2007. Effects of corporate tax reforms on SMME's investment decisions under the particular consideration of inflation. *Small Business Economics*, 29:102–113. [Online] Available from: <http://innopac.up.ac.za/validate?url=http%3A%2F%2F0-www.springerlink.com.innopac.up.ac.za%3A80%2Fcontent%2F2406q34q14831955%2F> [Accessed: 2009-06-15].

Ntsika Enterprise Development Agency, *State of Small Business Development in South Africa: Annual Review 2002.*

Oxford. Not Dated. *Advanced Learner's Dictionary – International Student's Edition*. Oxford: Oxford University Press.

PricewaterhouseCoopers (PWC). 2011. *Income tax Guide*. Johannesburg.

Republic of South Africa. 1962. *The Income Tax Act 58 of 1962*. Pretoria: Government Printer.

Republic of South Africa. 1991. *The Value-Added Tax Act 89 of 1991*. Pretoria: Government Printer.

Sieberhagen, H.S. 2008, *A qualitative literature review of the differentiated tax policies for small and medium enterprises in South Africa*, MCom dissertation, University of Pretoria, Pretoria. [Online] Available from: <http://upetd.up.ac.za/thesis/available/etd-04032009-143734/> [Accessed: 2009-06-04].

Small Enterprise Development Agency. 2006. *Review of trends on entrepreneurship and the contribution of small enterprises to the economy of South-Africa, 2000–2006*. [Online] Available from: <http://www.seda.org.za/siteimgs/Brochures/Trends%20Analysis%202000-2006.pdf> [Downloaded: 2009-05-14].

Smulders, S.A. 2006. *Taxation compliance burden for small business in South Africa*. Unpublished Mcom mini dissertation. Pretoria: University of Pretoria.

Smulders, S. & Oberholzer, R. 2006. Is SARS really empowering the small business? *The Professional Accountant*, May:8–12.

Smulders, S. & Stiglingh, M. 2008. *Annual Tax Compliance Costs for Small Businesses: A Survey of Tax Practitioners in South Africa*. [Online] Available from: [http://search.sabinet.co.za/WebZ/images/ejour/ecoman/ecoman\\_v11\\_n3\\_a9.pdf?sessionid=01-43882-286909455&format=F](http://search.sabinet.co.za/WebZ/images/ejour/ecoman/ecoman_v11_n3_a9.pdf?sessionid=01-43882-286909455&format=F) [Accessed: 2009-05-25].

South Africa. Department of Trade and Industry. 2005. *Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises*. [Online] Available from: <http://www.dti.gov.za/smme/strategy.pdf> [Downloaded: 2009-05-14].

South African Revenue Service (SARS). 2000. Comprehensive guide to capital gains tax. [Online] Available: [http://www.moneywebtax.co.za/moneywebtax/action/media/downloadFile?media\\_fileid=192](http://www.moneywebtax.co.za/moneywebtax/action/media/downloadFile?media_fileid=192) [Accessed 2011-07-03].

South African Revenue Service (SARS). 2005. SMME facilitation programme: report version. South African Revenue Service: Pretoria.

South African Revenue Service (SARS). 2009a. Interpretation Note: No. 9 (Issue 5) [Online] Available: <http://www.kwikwap.co.za/louismarais/docs/Small%20Business%20Corporation.pdf> [Accessed: 2010-08-30].

South African Revenue Service (SARS). 2009b. Tax guide for small businesses. [Online] Available: <http://www.sars.co.za/home.asp?pid=54773> [Accessed: 2009-12-10].

South African Revenue Service (SARS). 2009c. Turnover tax. [Online] Available: <http://www.sars.co.za/home.asp?pid=43122> [Accessed: 2009-06-15].

South African Revenue Service (SARS). 2011. *Reference guide venture capital companies (VCCs)*. Pretoria: South African Revenue Services.

Strategic Business Partnerships for business growth in Africa (SBP). 2003. *SME Alert – October 2003. A small business perspective on compliance*. Johannesburg: Strategic Business Partnerships.

Strategic Business Partnerships for business growth in Africa (SBP). 2005. *Counting the cost of red tape for business in South Africa – main report, June 2005*. Johannesburg: Strategic Business Partnerships.

Thersby, K. 2006. Does your small business qualify for the lower tax rate? *Moneyweb's TAX BREAKS*, 246:1–2.

United States Agency International Development (USAID). 2008. *Formal SMME tax compliance survey report*. [Online] Available from [http://www.ifc.org/ifcext/fias.nsf/AttachmentsByTitle/SouthAfricaFormalSMMETaxComplianceReport2008/\\$FILE/Formal+SMME+Tax+Compliance+Report1.pdf](http://www.ifc.org/ifcext/fias.nsf/AttachmentsByTitle/SouthAfricaFormalSMMETaxComplianceReport2008/$FILE/Formal+SMME+Tax+Compliance+Report1.pdf) [Accessed: 2008-05-29].

United States Agency International Development (USAID). 2008. *Informal SMME tax compliance survey report*. [Online] Available from [http://www.ifc.org/ifcext/fias.nsf/AttachmentsByTitle/SouthAfricaInformalSMMETaxComplianceReport2008/\\$FILE/Informal+SMME+Tax+Compliance+Report1.pdf](http://www.ifc.org/ifcext/fias.nsf/AttachmentsByTitle/SouthAfricaInformalSMMETaxComplianceReport2008/$FILE/Informal+SMME+Tax+Compliance+Report1.pdf) [Accessed: 2008-05-29].

Venter, J.M.P & de Clercq, B. 2007a. *Tax Compliance Burden for Small, Medium and Micro Establishments in the Business Services Industry*, 76–84. [Online] Available from: [http://search.sabinet.co.za/WebZ/images/ejour/images/ejour/ecoman/ecoman\\_v10\\_n1\\_a5.pdf?sessionid=01-43882-286909455&format=F](http://search.sabinet.co.za/WebZ/images/ejour/images/ejour/ecoman/ecoman_v10_n1_a5.pdf?sessionid=01-43882-286909455&format=F) [Accessed: 2009-05-25].

Venter, J.M.P & de Clercq, B. 2007b. *A Three-Sector Comparative Study of the Impact of Taxation on Small and Medium Enterprises*, 144–147. [Online] Available from: [http://search.sabinet.co.za/WebZ/images/ejour/images/ejour/meditari/meditari\\_v15\\_n2\\_a8.pdf?sessionid=01-43882-286909455&format=F](http://search.sabinet.co.za/WebZ/images/ejour/images/ejour/meditari/meditari_v15_n2_a8.pdf?sessionid=01-43882-286909455&format=F) [Accessed: 2009-05-25].

Xinhua, 2011. China continues to offer tax preferences to small firms this year. *Global Times*, 15 February. [Online] Available: <http://business.globaltimes.cn/china-economy/2011-02/623268.html> [Accessed: 2011-04-22].

Yaobin, S. 2007. *Tax, Small Business, Growth: effect of taxation on investment and cross-border trade*. Paper presented at the ITD Global Conference on the taxation of SMEs, 17–19 October. [Online] Available from:

<http://www.itdweb.org/smeconference/documents/parallel/5A%20Shi%20CHINA%20ppt%20ENG.pdf> [Accessed: 2011-04-22].