Tax for small businesses: what you need to know as an SME owner

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Understanding how South Africa's taxation system works for small businesses is an important part of being a successful entrepreneur. Various incentive schemes offered by the state in an attempt to support the SME sector can provide significant tax relief and help you save money.

The following provides a breakdown of three kinds of tax systems that apply to SMEs.

Turnover tax and how it works

Turnover tax is a more simplified tax system for SMEs, which aims to alleviate their tax compliance burden, it replaced income tax, VAT, provisional tax, capital gains tax and dividends tax for small businesses in March 2009.

Turnover tax applies to the taxable turnover of a small business that has a turnover of less than R1m per annum. The following taxpayers may qualify for turnover tax: individuals (such as freelancers), partnerships, close corporations, companies and co-operatives.

For clarity, “turnover” refers to the total income generated by the business as a result of its trading activities. This could include paid invoices for goods sold or services rendered, plus 50% of all receipts of a capital nature that could be realised from the sale of business assets. In addition, registered small businesses will need to include all interest from investments in their taxable turnover amount.

The following table reflects the current turnover tax rates per qualifying turnover bracket:

Taxable turnover:	Rate of tax:
R0 – R335,000	0%
R335,001 – R500,000	1% of the amount above R335,000
R500,001 – R750,000	R1,650 + 2% of the amount above R500,000
R750,001 and above	R6,650 + 3% of the amount above R750,000

Provisional tax and sole proprietors

If your SME is a one-person band, you’ll need to register for provisional tax. In which case your personal income and income derived from your business will be combined, and business-related expenses will be deducted to arrive at your taxable income amount.

Unlike standard income tax, which is assessed and settled once a year, as a provisional taxpayer, you will be required to make two smaller payments to avoid accumulating a large tax debt that becomes due once a year.

Provisional tax payments are based on forecasts on what you predict you will earn over a certain number of months, which is why financial planning and budgeting is so important. Underestimating the amount of income you’ll earn and therefore under paying on provisional tax will trigger penalties which vary according to whether your taxable income is more or less than R1m.

Let’s talk about the Small Business Corporation (SBC) incentive

Small businesses usually pay a flat rate of 28% for income tax. However, registering as an SBC will reduce your tax burden on taxable income up to R550,000 and activate a number of other benefits such as a faster depreciation allowance.

There are few criteria that apply if you want to register as an SBC, the major one being that your annual turnover should not be more than R20 million. If you do qualify as an SBC, a reduced tax rate will automatically be applied at assessment stage, based on the information you provide on your ITR14 form. For example, a qualifying SBC will pay no income tax on the first R79 000 of its taxable income. Being assessed as an SBC could help SMEs to realise tax savings of over R95,000.

Seek advice

Wrapping your head around which tax options would work best for your business can be tricky. Approaching a tax practitioner may therefore be a viable option. This could be a valuable learning exercise to assist you in completing your tax returns correctly or figuring out if you'd be better served by making use of a paid service. Going the paid route will require you to weigh up whether the cost of the service is worth the time, effort and resources it takes to complete the return yourself.

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