Small Business Taxation: The Ultimate Guide

Description

So, tax. The vegetables of adulthood. No one really wants anything to do with them, we are not 100% sure they are good, but we have to deal with them all the same. Despite our sentiments, taxes are integral to good financial management and accounting in your business.

Contrary to what a lot of small businesses do, your tax strategy should be established early in the business. Taxes are not something to be put on the back burner and dealt with later. They accumulate, accumulate fines, and before you know it, cause your business financial strain.

It is understandable, however, that taxes can be a bit complex. In honesty, many entrepreneurs procrastinate on taxes due to a lack of skill to deal with them, and funds to hire someone who can.

There is good news though. For entrepreneurs already handling the financial management of their small business, there are a few taxes you need to be aware of. Let’s dive in and see which these are.

Turnover Tax

Turnover tax is an umbrella tax designed to ease the burden of computing and paying taxes for small businesses. It does this by lumping various taxes and applying a single rate to the yearly turnover of the business.

This simplifies determining how much tax to remit, reduces the tax burden and reduces the number of tax submissions. Turnover tax replaces Income Tax, VAT, Provisional Tax, Capital Gains Tax, and Dividends Tax.

That's pretty much the rest of the taxes in this guide. A great advantage of turnover tax is you can register your small business and still be eligible for VAT. This is particularly important for businesses with high input VAT rates.

Since turnover tax is paid on revenue, businesses with low net profit percentages would be wise to opt-out. This is because the low tax rates of turnover tax may not compensate for it being taxed on high revenues as opposed to other taxes that would have been determined on very low profits. All in all, it's a good place to start with your small business taxation.

Who Should Pay It?

Turnover tax is completely voluntary. Individuals (sole proprietors), Partnerships, Close Corporations, Companies, and Co-operatives, who make R 1 million or less qualify. SARS has a handy quick test to determine if your business can register.

Businesses should register before a new tax year commences, while newly registered businesses have 2 months to get registered. However, once your business is removed from the turnover tax regime, voluntarily or by SARS, it cannot be re-registered.

When is it Due?

There are generally three payments for turnover tax. Two of these are interim payments that are made in the middle and at the end of your financial year. These are based of-of the estimated revenue of the business for the year.

Once the financial year ends, a return that reflects the actual revenue of the business must be completed. This is then compared with the interim payments paid. An overpayment would result in a refund, while an underpayment demands a top-up.

How Much is Due?

Turnover tax is calculated by applying a flat rate on the yearly revenue of your business. The rate is on a sliding scale, changing with higher levels of revenue.

Turnover (R)	**Rate of tax (R)**
R0 – R335 000.00	0%
R335 001.00 – R500 000.00	1% of each R1 above 335 000
R500 001.00 – R750 000.00	1 650 + 2% of the amount above 500 000
R750 000.00 and above	6 650 + 3% of the amount above 750 000

Along with reduced rates, turnover tax carries the advantage of a significantly reduced need for record keeping. Only the following is required:

1. Records of all amounts received;
2. Records of dividends declared;
3. A list of each asset with a cost price of more than R10,000 at the end of the year of assessment as well as of liabilities exceeding R10,000.

What are the Exceptions?

Turnover tax does not cover any of your payroll taxes. You will still need to pay these separately. Unfortunately, unlike standard taxes, turnover taxes are payable even if you make a loss.

Income Tax for Corporates

Income tax, also known as business tax is a tax imposed on businesses that undertake business in South Africa. It applies to businesses registered under the South African Jurisdiction, or have a branch or subsidiary undertaking business here. South African companies are liable for income tax on all their income, even that generated outside SA. Non-resident companies are only liable for the potion generated within South Africa.

Who Should Pay It?

Income tax is due from all for-profit businesses including listed public companies, unlisted public companies, private companies, close corporations, co-operatives, Collective Investment Schemes, Small Business Corporations (s12E), Body Corporates, Share Block Companies, Dormant Companies, and Public Benefit Companies.

When is it Due?

Income Tax, like turnover tax, is also paid in 3 returns. 6 months and 12 months into the business's financial year, a payment must be made based on the estimated income for the business for that period. This is referred to as **Provisional Tax**.

Once the financial year ends, the business needs to calculate the actual income tax based on the income made in the year. This is then reconciled with the provisional tax. If the provisional tax exceeds the calculated tax, the business can apply for a reimbursement. Where the opposite is true, the business needs to pay the difference to SARS.

How Much is Due?

Income tax rates differ for Trusts, Small Business Corporations, and other businesses. Generally, businesses are levied an income tax at a flat rate of 28%. Trusts, on the other hand, pay income tax at the rate of 45%. Personal Service Providers are taxed at a rate of 33%. For Small Business Corporations, income tax is levied as follows:

Taxable Income (R)	**Rate of Tax (R)**
0 – 78 150	0% of taxable income
78 151 – 365 000	7% of taxable income above 78 150
365 001 – 550 000	20 080 + 21% of taxable income above 365 000
550 001 and above	58 930 + 28% of the amount above 550 000

You can keep track of changes to these rates on this page.

Value Added Tax (VAT)

VAT is a type of sales tax that replaced, well, Sales Tax, as a better way to account for who has to pay. The original challenge was that since sales taxes are paid by the final consumer, the burden used to be on businesses to prove they are just resellers.

With VAT, the tax obligation is transferred by each manufacturer forward until it is paid by the final consumer. They do this by claiming the VAT they paid, and then paying the VAT they charged the next person.

In other words, they pay tax on the value they added. By adding the VAT rate to their original price, businesses paying VAT are simply remitting the tax that is due at that point.

When the final consumer pays VAT, all tax is remitted to the revenue authorities. Since VAT is added on top of your selling price, you are actually not paying VAT yourself. You are simply collecting it and remitting it on behalf of the authorities.

For this reason, it may benefit your business to register for VAT as soon as possible. This avoids you from becoming the final consumer who is then paying VAT.

VAT Payment Process

Who Should Pay VAT?

VAT registration can be either voluntary or compulsory. Compulsory VAT registration applies to your business if in a tax period your business makes revenue of a million Rands or more on goods that qualify for VAT. You can register for VAT voluntarily should your revenue be fifty thousand Rands or more.

The revenue needs to be from goods that are neither zero-rated nor VAT exempt. Entrepreneurs that opt into turnover tax may still choose to opt into the VAT system. Companies, individuals, partnerships, trust funds, foreign donor-funded projects, and municipalities can all register for VAT.

When is VAT Due?

VAT returns are due on the 25th day of the month after the period the VAT is being submitted for. For businesses that use eFiling, VAT returns are due on the last day of the month following the tax period.

Tax periods for VAT are divided into 5 categories, A, B, C, D and E. Category C is compulsory for businesses with VAT-qualifying supplies worth R30 mil or more per annum. Businesses can also apply in writing to be placed in this category.

Category D applies to micro businesses or farming businesses with VAT-qualifying supplies of R1.5 mil or less per annum.

Category	Submission	Calendar Months
A	Every two calendar months	January, March, May, July, September, and November
B	Every two calendar months	February, April, June, August, October, and December
C	Every calendar month	January to December
D	Every six calendar months	February and August.
E	Every twelve months	End of the tax year.

How Much VAT is Due?

VAT is calculated on 15% of the business’s value added. This amount is arrived at by subtracting the input VAT from the output VAT. Input VAT is paid for on supplies, while output VAT is charged to clients.

This means that if you are VAT registered, you need to add 15% to your selling price to account for the VAT to be collected. Failure to do so will result in your output VAT being deducted from your margins.

What are the Exceptions?

VAT is not payable where a transaction is classified as zero-rated. All direct exports are zero-rated. A direct export is one where a movable good is sold to another country, and the taxpayer is responsible for the delivery of the goods.

All purchases by foreign nationals made locally are indirect exports and are therefore not VAT exempt. Other VAT zero-rated items include:

- Illuminating paraffin
- Goods subject to fuel levy
- Farming Inputs
- Sales of going concerns
- International transport services

- Some government grants
- Basic Foods
  - brown bread
  - dried mealies
  - dried beans
  - lentils
  - pilchards or sardines in tins or cans
  - rice
  - fresh fruit and vegetables
  - vegetable oil
  - milk
  - eggs
  - edible legumes.

Other VAT Exempt items include"

- Non-fee-related financial services
- Educational services provided by an approved educational institution
- Residential rental accommodation, and,
- Public road and rail transport

Payroll Taxes (PAYE/UIF/SDL)

Payroll taxes are made up of deductions made from employee salaries or employer contributions to SARS. **Pay As You Earn (PAYE)/ Employees Tax** is withheld from the employee's salary and submitted to SARS. **Skills Development Levy (SDL)** is paid by the employer. **Unemployment Insurance Fund (UIF)** is both withheld from the employee's salary and paid by the employer in equal shares. SDL is a compulsory levy that is paid by employers to SARS to contribute to the training and skills enhancement of employees. UIF is a compulsory payment made by employers required to register for PAYE or UIF. It's managed by the unemployment insurance commissioner and is used to provide temporary relief for employees who lose employment.

Who Should Pay Payroll Taxes?

Unemployment Insurance Fund (UIF) – all employers and employees should pay UIF.

Skills Development Levy – an employer who needs to register for UIF and PAYE becomes liable for SDL as well. Where an employer believes salaries will exceed R500 000 over 12 months, the employer becomes liable for SDL.

Pay As You Earn (PAYE)/ Employees Tax – is paid by all employees who earn a monthly income above a certain threshold for a given period.

When Are Payroll Taxes Due?

Unemployment Insurance Fund (UIF), Skills Development Levy and Pay As You Earn (PAYE)/ Employees Tax- must be paid within seven days after the month for which it was collected. Should this day be a weekend or public holiday, then payment should be made before this weekend or holiday.

How Much Payroll Taxes Are Due?

Unemployment Insurance Fund (UIF) – both the employer and employee pay 1% of the employee's total salary as UIF. As a result, the final payment will be 2% of the amount, with 1% coming from each contributor. A ceiling is placed on earnings of R14 872 per month or R178 464 annually. Employees who earn above R14 872.00 can contribute a maximum of R148.72 per month for UIF.

Skills Development Levy – is also charged at 1% of employee salaries, but is paid for only by the employer. SDL is charged at 1% of the total salary bill, including overtime payments, leave pay, bonuses, commissions, and lump sum payments.

Pay As You Earn (PAYE)/ Employees Tax – is paid on a sliding scale basis. This means that employees who earn higher pay a higher rate for PAYE. Because PAYE takes into account multiple factors such as age, salary, and contributions that do change at times, you can arrive at PAYE using this handy calculator.

What are the Exceptions?

In the following instances, the employee and employer are exempt from **UIF:**

- Employed by the employer for less than 24 hours a month

- Receives remuneration under a contract of employment as contemplated in section 18(2) of the Skills Development Act, 1998 (Act No.97 of 1998)
- Employed as an officer or employee in the national or provincial sphere of Government
- Entered the Republic for the purpose of carrying out a contract of service, apprenticeship or learnership within the Republic. If upon termination, the employer is required by law or by the contract of service, apprenticeship or learnership, or by any other agreement or undertaking, to send home that person, or if that person needs to leave the Republic
- The President, Deputy President, Minister, Deputy Minister, a member of the National Assembly, a permanent delegate to the National Council of Provinces, a Premier, a member of an Executive Council or a member of a provincial legislature or
- A member of a municipal council, a traditional leader, a member of a provincial House of Traditional Leaders and a member of the Council of Traditional Leaders.

In the following instances, the employee and employer are exempt from **SDL:**

- Any public service employer in the national or provincial sphere of Government. (These employers must budget for an amount equal to the levies due for the training and education of their employees).
- Any national or provincial public entity, if 80% or more of its expenditure is paid directly or indirectly from funds voted by Parliament. (These employers must budget for an amount equal to the due for training and education of their employees).
- Any public benefit organisation (PBO), exempt from paying Income Tax in terms of Section 10(1)(cN) of the Income Tax Act No.58 of 1962, which only carries on certain welfare, humanitarian, health care, religion, belief or philosophy public benefit activities or only provides funds to a PBO and to whom a letter of exemption has been issued by the Tax Exemption Unit (TEU).
- Any municipality to which a certificate of exemption is issued by the Minister of Labour.
- Any employer whose total remuneration subject to SDL (leviable amount) paid/due to all its employees over the next 12-month period won’t exceed R500 000. If this is the reason for exemption, these types of employers are not required to register to pay SDL.

Dividend Tax

It’s a tax paid by the owners of shares in a company when dividends (share of profits) are paid. Dividend tax is withheld by the company, or a withholding agent and should be remitted to SARS. Ultimately, the beneficiary of the dividend needs to ensure that the correct amount is paid in a timely manner to SARS.

Who Should Pay Dividend Tax?

Everyone who receives a dividend from a company should pay dividend tax. Every company that issues a dividend should make sure they, or an agent, withhold 20% of the dividend and pay it to SARS. Ultimately though, the recipient of the dividend needs to make sure the tax is remitted in full and on time.

When Is Dividend Tax Due?

Dividend tax is triggered when the dividend is paid, not when it is declared. It is due for payment on or before the last day of the month following the month in which the dividend was paid.

How Much Dividend Tax is Due?

Dividend tax is currently levied at a rate of 20% of the dividend.

What are the Exceptions?

Dividend payments by headquarter companies are not subject to Dividends Tax. The following entities are also exempt from paying dividends tax:

- Local South African registered companies
- Any South African government entity
- Public Benefit Organizations (i.e. non-profit companies)
- Mining rehabilitation trusts
- Pension, provident, preservation, retirement annuity, beneficiary and benefit funds
- Shareholders of a registered micro business (i.e. companies registered for Turnover Tax) where the dividend does not exceed R200 000.00 per annum
- Non-residents receiving dividends from foreign companies listed on the Johannesburg Stock Exchange
- A natural person in respect of a dividend paid on or after 1 March 2015, for a tax-free savings account.

Capital Gains Tax

Capital Gains Tax (CGT) is a part of income tax that arises when an individual disposes of an asset. CGT is levied when an asset is sold for a value different from the value at which it was acquired.

A higher resale value results in a capital gain, which means the individual has to pay tax. On the other hand, a lower resale value results in a loss that enables the individual to make a claim. CGT is taxed at a lower rate than standard income tax.

Who Should Pay Capital Gains Tax?

Individuals, trusts and companies are liable for Capital Gains Tax. South African residents, as defined for the purposes of tax, are liable for CGT for assets in and out of the country.

When is Capital Gains Tax Due?

CGT is paid at the end of the period of assessment as part of income tax. It is considered when computing the taxable income for the purposes of provisional tax and the third payment.

How Much Capital Gains Tax is Due?

CGT is currently levied at 22.4% for companies and 36% for trusts. Individuals (and sole proprietors by extension) pay CGT at 18%. Taxtim provides this handy calculator to compute your CGT liability.

What are the Exceptions?

Retirement funds are fully exempt from CGT, while public benefit organisations may be fully or partially exempt. Additional exemptions include:

- R2 million gain or loss on the disposal of a primary residence
- Most personal use assets
- Retirement benefits
- Payments in respect of original long-term insurance policies
- Annual exclusion of R40 000 capital gain or capital loss is granted to individuals and special trusts
- Small business exclusion of capital gains for individuals (at least 55 years of age) of R1.8 million when a small business with a market value not exceeding R10 million is disposed of
- Instead of the annual exclusion, the exclusion granted to individuals is R300 000 for the year of death.

Conclusion

Taxation is not the simplest thing you'll come across in life, but it can be understood with practice. In line with our philosophy in accounting for your business, you can get started with your taxes on your own.

You will definitely need a good accountant in the process, but getting started will ease your costs significantly. At the very least, you get an even better understanding of your business overall.

Most importantly though, you don't have to hold off on your taxes until they become a huge compliance issue or financial strain.

Category

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