



TAX GUIDE FOR  
MICRO BUSINESSES  
2009/10



**Turnover Tax**  
for Small Businesses

**SARS**  
At Your Service

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## TAX GUIDE FOR MICRO BUSINESSES 2009/10

The guide contains information about the simplified tax system for micro businesses (businesses with a turnover up to R1 million) that will come into operation on 1 March 2009. The system provides for a single tax that does away with the need to account for income tax, Capital Gains Tax (CGT), Secondary Tax on Companies (STC) and Value-Added Tax. Applications to switch to (or from) the system are generally due before 1 March each year. As the system is optional it is important to review your business when deciding on whether to switch or not. Factors like the profit margin of the business, its expected tax contributions and – most importantly – its tax compliance costs should be taken into account in making the decision.

The guide is a general guide. It is not meant to go into the precise technical and legal detail that is often associated with taxation. It should, therefore, not be used as a legal reference and is not a binding ruling.

Another guide offered by SARS, the Tax Guide for Small Businesses 2008/09 will provide useful background information to this guide. It covers topics like: the different types of businesses, the SARS requirements that small businesses have to comply with, the requirements of other authorities that small businesses have to comply with, and record-keeping. The Tax Guide for Small Businesses 2008/09 is available on the SARS website at [http://www.sars.gov.za/uploads/images/0\\_Tax\\_Guide\\_for\\_Small\\_Businesses\\_2009.pdf](http://www.sars.gov.za/uploads/images/0_Tax_Guide_for_Small_Businesses_2009.pdf).

Should you require further information or any other information on the interpretation and administration of tax and customs legislation, you may:

- Contact your local SARS office
- Contact the SARS Call Centre on 0860 12 12 18
- Visit the SARS website at [www.sars.gov.za](http://www.sars.gov.za)
- Contact your own tax advisor/practitioner

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## 1.GLOSSARY

<b>Accrue</b>	A technical income tax term that essentially means a point at which a person becomes unconditionally entitled to an amount.
<b>CGT</b>	Capital Gains Tax, which is usually imposed on the difference between a “receipt or accrual of a capital nature” and base cost (original cost) of the asset.
<b>Compulsory VAT registration threshold</b>	The value of the supplies made in a year that result in an enterprise having to register for VAT. The threshold as from 1 March 2009 is R1 million.
<b>Employees’ tax</b>	The tax that employers deduct from the earnings of their employees to pay over to SARS on their behalf. It consists of SITE (Standard Income Tax on Employees) and PAYE (Pay As You Earn).
<b>Income tax</b>	An annual tax that is payable to SARS based on taxable income (net income) that is received by or “accrues” to individuals, companies, and other taxpayers, after deducting qualifying expenses and allowances.
<b>Income Tax Act</b>	Income Tax Act, Act No. 58 of 1962
<b>Investment income</b>	Income in the form of dividends, royalties, rental income, annuities and interest, together with proceeds derived from investment or trading in financial instruments, marketable securities or immovable property.
<b>Micro business</b>	A business with a “qualifying turnover” that does not exceed R1 million for a year of assessment and, which is not specifically disqualified from making use of the Turnover Tax.
<b>Professional service</b>	A service in the field of accounting, actuarial science, architecture, auctioneering, auditing, broadcasting, broking, commercial arts, consulting, draftsmanship, education, engineering, entertainment, health, information technology, journalism, law, management, performing arts, real estate, research, secretarial services, sport, surveying, translation, valuation or veterinary science
<b>Provisional tax</b>	A periodic payment that is intended to assist taxpayers in meeting their tax liabilities on an ongoing basis instead of paying a big amount once a year on assessment. It is offset against the final income tax that a taxpayer has to pay for a year of assessment.
<b>Public benefit organisation</b>	An organisation that carries on a public benefit activity, complies with the provisions of section 30 of the Income Tax Act and is approved by SARS.
<b>Qualifying turnover</b>	The total amounts received from carrying on business activities, but excluding receipts or accruals of a capital nature and Government grants that are exempt from income tax.
<b>Receipt or accrual of a capital nature</b>	A technical income tax term that is usually distinguished from a receipt or accrual of a revenue nature that is fully taxable. In most cases, it is the result of the disposal of assets (other than trading stock) which are used in a business to generate income e.g. machinery.
<b>Recreational club</b>	An organisation that is established exclusively to provide social and recreational amenities or facilities to its members, complies with the provisions of section 30A of the Income Tax Act, and is approved by SARS.
<b>Registered micro business</b>	A micro business that is registered for the Turnover Tax.
<b>SARS</b>	The South African Revenue Service
<b>SDL</b>	Skills Development Levy, which is a levy on payroll that is used for the training and skills development of employees.
<b>STC</b>	Secondary Tax on Companies, which is a tax on profits imposed on the net dividends distributed by a company.
<b>Taxable turnover</b>	The total of amounts, not of a capital nature, received during a “year of assessment” from carrying on business activities in South Africa, with certain specific inclusions and exclusions.
<b>Turnover Tax</b>	The annual presumptive tax that is payable by a registered micro business by applying the relevant tax rate to its “taxable turnover”.
<b>VAT</b>	Value-added Tax, which is a tax that is imposed on the supply and importation of goods and services.
<b>Year of assessment</b>	The tax reporting period for income tax and Turnover Tax. For the Turnover Tax it generally runs from the beginning of March to the end of February of the following year.

## 2. EXECUTIVE SUMMARY

### 2.1 Introduction

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.

### 2.2 What is the simplified tax system for micro businesses?

The simplified tax system is essentially a package that consists of a Turnover Tax as a substitute for income tax, CGT, STC, and an increase in the VAT compulsory registration threshold from R300,000 to R1 million. The Turnover Tax is optional, meaning that a micro business can decide if it wants to use it or the current tax system. It will be available to sole proprietors (individuals), partnerships, close corporations, co-operatives and companies with effect from 1 March 2009.

### 2.3 How will the Turnover Tax work?

Unlike the income tax system that makes use of comprehensive inclusion rules and a reduction process that requires proof of expenditure to be maintained, the Turnover Tax will be calculated by simply applying a tax rate (see table below) to a "taxable turnover". The "taxable turnover" will basically consist of the turnover of the business with a few specific inclusions and exclusions.

### 2.4 Turnover Tax Rates

Turnover	Marginal Rates (R)
R0 - R100,000	0%
R100,001 - R300,000	1% of each R1 above R100,000
R300,001 - R500,000	R2,000 + 3% of the amount above R300,000
R500,001 - R750,000	R8,000 + 5% of the amount above R500,000
R750,001 and above	R20,500 + 7% of the amount above R750,000

### 2.5 When and how will the Turnover Tax be payable?

The Turnover Tax will be levied annually on a year of assessment that runs from the beginning of March to the end of February of the following year. It will include two six-monthly interim (provisional) payments. A micro business that opts for the Turnover Tax must apply to do so before the beginning of a year of assessment and remain in the system for at least three years unless it is specifically disqualified. Equally, a micro business that exits the Turnover Tax system will not be allowed to re-register for a period of three years.

### 2.6 How will capital gains be treated?

Micro businesses that choose the Turnover Tax will be specifically exempted from CGT. The Turnover Tax will simply include 50% of the amounts received from the disposal of business assets in "taxable turnover". Where the asset is immovable property, the amounts received will only be included to the extent that the property was used for business.

## 2.7 How will dividend distributions be treated?

Micro businesses that choose the Turnover Tax will also be exempted from STC to the extent that their dividend distributions do not exceed R200,000 a year. Any excess will be subject to STC.

## 2.8 Will there be relief from payroll taxes?

The simplified tax system does not provide specific relief in respect of payroll taxes/levies like “employees’ tax”, unemployment insurance fund contributions, and the SDL. In terms of existing law, however, businesses whose employees are not liable for “employees’ tax” will not be required to register for “employees’ tax and businesses with a payroll of up to R500,000 a year will not be liable for the SDL.

## 2.9 Increase in the compulsory VAT registration threshold

The existing compulsory VAT registration threshold of R300,000 will be increased to R1 million from 1 March 2009. As the simplified tax system is a package that aims to reduce record-keeping, a micro business that is registered for the Turnover Tax will not be permitted to register for VAT, which requires careful record-keeping.

## 2.10 Relief from “exit VAT”

When any vendor deregisters from the VAT system, the vendor is required to pay VAT (exit VAT) on the lesser of the cost or market value of the assets held before deregistering. Vendors that apply to deregister from the VAT system, following the increase in the compulsory VAT registration threshold to R1 million, will be allowed to pay the exit VAT over a period of six months.

Where a vendor deregisters from the VAT system in order to register for the Turnover Tax, further relief will be granted by way of a deduction of up to R100,000 from the value of the assets held by that vendor prior to deregistration. This equates to a reduction of up to R12,281 in the exit VAT that will be payable.

On the other hand, if a person was deregistered as a VAT vendor in order to register for the Turnover Tax and subsequently re-registers for VAT, the value of assets in respect of which VAT input credits can be claimed on re-registration will be reduced by up to R100,000.

## 2.11 What happens if the “qualifying turnover” is exceeded?

A micro business registered for the Turnover Tax must notify SARS within 21 days of its “qualifying turnover” exceeding R1 million for the “year of assessment”, or where there are reasonable grounds to believe that the amount will be exceeded. The business will then be deregistered from the Turnover Tax, unless SARS is of the view that the excess will be small and temporary. The deregistration and liability for VAT will take effect from the beginning of the month following the month in which the “qualifying turnover” exceeded, or was likely to exceed, the R1 million threshold.

SARS may also deregister a micro business from the Turnover Tax where it is satisfied that the “taxable turnover” of the micro business is sufficient to render that business liable to register for VAT. SARS must consult with the micro business before deregistering it on this basis.

## 2.12 Are there any complicated aspects to the simplified tax system?

As with most tax systems, there are often opportunities for tax planning and tax avoidance. It follows that the simplified tax system contains anti-avoidance measures to curtail abuse and revenue leakage. For example, micro businesses that render “professional services” and services under employment-like conditions will not be allowed to access the Turnover Tax system.

Whilst it is acknowledged that such provisions do make the legislation appear more complicated, these are necessary safety features to ensure that the relief measures are only taken up by the intended recipients. At the end of the day, the simplified tax system is designed to assist the truly micro, start-up type of business. Therefore, such businesses should not run into complicated problems with the law when using the system.

## 2.13 Quick test to determine if a business qualifies for the Turnover Tax

A quick “check the box” test is found in Annexure A to determine if a business qualifies for the Turnover Tax.

## 2.14 Application to register for the Turnover Tax

An application form to register is attached as Annexure B.

# 3. BACKGROUND

## 3.1 Introduction

Small businesses have the potential to grow the economy, generate jobs and reduce poverty. Research, however, indicates that they face many obstacles, including relatively high tax compliance costs as a percentage of turnover. This is due to the fixed costs associated with systems necessary to comply with the requirements of the tax system.

According to independent research commissioned by SARS and the National Treasury, South African tax practitioners charge their small business clients an average of R7,030 a year (2007) to ensure that tax returns for income tax, provisional tax, VAT and employees’ tax are prepared, completed and submitted as required.<sup>1</sup> As a percentage of turnover, tax compliance costs range between 2.2% for businesses with a turnover of up to R300,000 a year and 0.1% for businesses with a turnover around R14 million a year. Tax compliance costs therefore tend to be regressive, especially for businesses with a turnover under R1 million a year. In addition, it costs small businesses an average of R36,343 for a range of related services, including accounting services.

The reality is that many small businesses are outside the income tax net either because they generate small profits or because of the big compliance burden. Many were also historically marginalised. Government, therefore, announced a small business amnesty in 2006 to encourage informal and other small businesses with a turnover of up to R10 million a year to enter the tax system and regularise their tax affairs.

In addition to this outreach, SARS and National Treasury agreed to explore various options to reduce the tax compliance burden, especially for very small businesses, and to streamline the tax system for such businesses.

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<sup>1</sup> FIAS Study: Tax Compliance Burden for Small Businesses: A Survey of Tax Practitioners in South Africa (2007)

It was therefore proposed in the 2008 Budget Review that an optional simplified tax system be implemented for businesses with a turnover up to R1 million a year. This system will consist of a Turnover Tax that will effectively replace income tax, CGT, STC, and an increase in the compulsory VAT registration threshold from R300,000 to R1 million. Payroll taxes such as employees' tax (SITE and PAYE) and unemployment insurance fund (UIF) contributions are excluded as they are taxes generally borne by employees and collected by employers on behalf of the State. In terms of existing law, however, businesses whose employees are not liable for employees' tax will not be required to register for "employees' tax" and businesses with a payroll of up to R500,000 a year will not be liable for the SDL.

## 3.2 Structural design

The Turnover Tax is a stand alone tax and does not form part of the usual calculations for determining income tax payable by a taxpayer on his or her taxable income. Receipts of a business forming part of the Turnover Tax system will therefore be exempt for purposes of calculating a taxpayer's income tax liability in terms of the Income Tax Act. For ease of reference the Turnover Tax will be housed in a new Sixth Schedule to the Income Tax Act.

An important feature of the Turnover Tax system is that the tax liability imposed is broadly aligned with the tax liability under the current income tax system, but on a simplified base with reduced compliance requirements. However, the tax burden on micro businesses at the higher-end of the turnover range (R750,000 to R1 million) is increased to encourage them, as they grow, to maintain sufficient accounting records to migrate to the normal income tax system. Special consideration was given so as not to artificially or inadvertently encourage micro businesses to remain trapped in the Turnover Tax system, but to grow and migrate into the standard tax system.

As a packaged approach, the compulsory VAT registration threshold will be increased for all vendors to coincide with the Turnover Tax cap of R1 million. Businesses will not be permitted to register for VAT voluntarily if they are registered for the Turnover Tax.

## 4. DISCUSSION OF THE TURNOVER TAX

### 4.1 Who will qualify as a micro business?

The new Turnover Tax will be available to sole proprietors (individuals), partnerships, close corporations, co-operatives and companies. Where the "qualifying turnover" of such a business does not exceed the amount of R1 million in any year of assessment, it can elect to be taxed in terms of this system unless one of the grounds for disqualification discussed below applies. Where a person trades in different types of businesses, the total turnover of all business activities will be taken into account for purposes of determining the R1 million cap.

Public benefit organisations and recreational clubs are not permitted to use the Turnover Tax system as they also conduct activities other than business activities and already enjoy special tax treatment.

### 4.2 What is "qualifying turnover"?

"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 cap:

- 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 "Income Tax Act".

The main reason for excluding these receipts is to prevent amounts, which would not normally form part of the trading income (i.e. turnover) of a micro business, from being taken into account for purposes of determining the R1 million cap. A scenario to illustrate the need for these provisions is that of a micro business that generates a turnover of less than R1 million a year but occasionally disposes of a larger business asset during the “year of assessment”, which could disqualify it from the scope of the Turnover Tax system.

A separate provision, which is discussed in 4.7, is proposed to ensure that large capital gains are not regularly routed through a micro business.

### 4.3 Specific anti-avoidance rule for “qualifying turnover”

An anti-avoidance rule to guard against income splitting by a micro business has been incorporated into the legislation. This will cater for circumstances where the micro business is broken up between connected persons (e.g. a family) to ensure that each business component remains within the R1 million cap. In such instances the turnover of the connected persons’ business activities will be added together for purposes of applying the cap.

## 4.4 What disqualifications apply to a micro business?

### 4.4.1 *Limit on interests in other companies*

A business is disqualified from the Turnover Tax if that business, or any shareholder in that business, holds shares or has any interests in another company or close corporation, other than certain exceptions discussed below. The specific relief to be afforded in terms of the Turnover Tax system is aimed at the very small start-up type of business. Multiple shareholdings indicate more complex legal structures belonging to more sophisticated taxpayers and hence have been excluded for purposes of this system. This disqualification is also an anti-avoidance measure to guard against income splitting where a business is conducted by more than one entity with the same shareholder in order to ensure that each business entity remains below the R1 million cap.

Certain investments are, however, permitted because they are more of a public or social nature and present fewer opportunities for tax arbitrage. These are interests —

- in listed South African companies;
- in collective investment schemes;
- in body corporates and share block companies;
- in venture capital companies;
- of less than 5% in social or consumer co-operative;
- of less than 5% in co-operative burial societies or primary savings co-operative banks; and
- in friendly societies.

### 4.4.2 *Limit on investment income*

A business is disqualified if more than 10% of the total income of the business consists of investment income. The intended relief in terms of the Turnover Tax system is mainly aimed at benefiting the micro business that actively engages in entrepreneurial business activities thereby stimulating the economy and creating employment. A typical micro business will usually not have substantial capital from which it can generate investment income.

#### **4.4.3 Personal service providers excluded**

A person that is a “personal service provider” or a “labour broker” that has not been issued with a tax exemption certificate by SARS is disqualified. These entities have been targeted in specific anti-avoidance measures. As a result, it is not the intention for them to obtain any benefits from the Turnover Tax system.

A “personal service provider”<sup>2</sup> is a company or trust that has its services rendered to clients by a connected person (usually the owner, relative, or beneficiary) and –

- the connected person would be usually regarded as an employee of the client ; or
- where the services must be performed mainly at the premises of the client, the connected person is controlled or supervised by the client as to the manner in which the services are rendered; or
- where more than 80 per cent of the income of the company or trust is received from any one client during the “year of assessment”,

except where the company or trust, throughout the “year of assessment”, employs three or more full-time employees who are on a full-time basis engaged in the business of the company or trust and are not connected persons.

A “labour broker”<sup>3</sup> is any individual who, for reward, provides a client with other persons to render a service and pays the other persons for rendering the service. A person who pays a labour broker for services received must withhold “employees’ tax” (PAYE) from the payment and pay it over to SARS on behalf of the labour broker unless the labour broker is able to produce a valid tax exemption certificate from SARS.

#### **4.4.4 “Professional services” excluded**

A business that renders a “professional service”, as defined, is disqualified. Such services are generally rendered by more sophisticated, high income earning taxpayers, with profit margins that are significantly higher than those assumed in the design of the Turnover Tax.

#### **4.4.5 Limit on capital disposals**

See discussion of CGT in 4.7 below.

#### **4.4.6 Only interests and shares by individuals permitted**

It is highly unlikely that a micro business will find itself within a complex legal structure or multi-level corporate structure that requires professional legal, accounting and tax services. Such sophisticated legal structures often present opportunities for tax avoidance and hence need to be excluded for purposes of this simplified tax system. Furthermore, these are not considered to be the simple, truly small, start-up type of businesses that are targeted for assistance in the simplified tax system.

This disqualification is also an anti-avoidance measure to guard against income splitting where a business is conducted by more than one entity with the same shareholder in order to ensure that each business component remains within the R1 million cap.

A partnership, close corporation, co-operative or company will be disqualified if any of its partners, members or shareholders are not individuals during the relevant year of assessment.

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<sup>2</sup>For full definition, refer to paragraph 1 of the Fourth Schedule to the “Income Tax Act”, as amended by the Revenue Laws Amendment Act, 2008.

<sup>3</sup>For full definition, refer to paragraph 1 of the Fourth Schedule to the “Income Tax Act”.

## 4.5 Special rules relating to partnerships

Partnerships are taxed on a flow-through basis in that the turnover of the partnership will be taxed in the hands of each partner based on the profit sharing ratio according to the partnership agreement.

However, it is important to look at the collective turnover of the partnership to ensure that only micro businesses access the Turnover Tax system. Hence the “qualifying turnover” of a partnership as a whole must not exceed the amount of R1 million for the “year of assessment” in order for each individual partner to qualify for the Turnover Tax.

As mentioned above, a partnership will also be disqualified from the Turnover Tax where any of the partners in the partnership is not an individual.

A partner will be disqualified where, at any time during the tax year, that partner is a partner in another partnership.

## 4.6 On what amount is the Turnover Tax payable?

The Turnover Tax rates are applied to “taxable turnover” in a year of assessment. “Taxable turnover” is the amount, not of a capital nature, that is received (i.e. cash basis) from conducting business activities in the Republic, with specific inclusions and exclusions.

### 4.6.1 Specific inclusions in “taxable turnover”

- 50% of the amounts received from the disposal of certain capital assets. See discussion of CGT in 4.7.
- In the case of a close corporation, co-operative or company the “investment income” received, other than dividends. Dividends may be included at a later date. The reason for excluding dividends until a later date is that dividends are currently exempt from income tax, but will be subject to a dividend withholding tax at a later stage. Since the withholding tax will generally not apply to dividends paid to resident companies and the simplified tax system will exempt shareholders in micro businesses from the withholding tax, it may be necessary to tax dividends as part of the turnover of a small incorporated business to reduce revenue leakage.
- Certain income tax allowances granted in the previous “year of assessment”, and which would have been added back to taxable income in the following “year of assessment” in the current income tax system e.g. a doubtful debts allowance. In order to avoid double taxation this inclusion will be limited to the excess of the allowances over any balance of an assessed loss that the “micro business” will be prevented from carrying forward.

### 4.6.2 Specific exclusions from “taxable turnover”

- “Investment income” received by sole proprietorships (individuals) and partnerships. This income will be taxable under the current personal income tax provisions in the hands of the individual recipients. The reason for this is to cater for the common law principle that businesses operated by individuals are not distinct or separate legal entities from the individuals who own them. It will also allow for the capped annual tax exemptions for interest and dividend income that are currently granted to individuals.
- Certain Government grants that are exempt from income tax.
- Any amount that “accrued” to the business, and was subject to income tax in the hands of the business, in a “year of assessment” prior to it registering for the Turnover Tax.
- Salary income, excluding a notional salary “payment” made by a sole proprietor to himself or herself, will be taxed in terms of the current personal income tax system.

## 4.7 Capital Gains Tax (CGT)

A micro business that registers for the Turnover Tax will be exempted from CGT. As a substitute for CGT, the qualifying micro business will simply have to add to “taxable turnover, 50% of:

- receipts from the sale of immovable property to the extent that it was used for business purposes; and
- “receipts of a capital nature” from the sale of any other assets used mainly in the business.

A typical micro business will not have substantial capital assets. As the proposed Turnover Tax system deals with capital gains on a very simplified basis, specific measures need to be put in place to avoid abuse.

Accordingly, a person is disqualified as a micro business if the receipts from the disposal of capital assets exceed the amount of R1,5 million in a three- year period that covers the “year of assessment” during which the capital proceeds were received and the immediately preceding two years of assessment. A generous cap over a three-year period accommodates the occasional disposal of a higher value asset such as land and buildings.

## 4.8 Secondary tax on Companies (STC)

If the qualifying micro business is a co-operative, close corporation or company, it will also be exempt from STC (to be replaced with a dividend withholding tax), to the extent that the dividend distribution does not exceed R200,000 a year.

Where the dividend distribution exceeds R200,000 a year, the excess will be subject to STC.

## 4.9 Administration

### 4.9.1 Registration

As participation in the Turnover Tax system is optional, a qualifying micro business may apply to register as a micro business with SARS before the beginning of the year of assessment, or where that micro business commences business activities during the course of the year of assessment, within two months from the date of commencement.

An application form to register for the Turnover Tax is attached as **Annexure B**.

### 4.9.2 Deregistration

There are two circumstances when a registered micro business is deregistered from the Turnover Tax by SARS, namely –

- Voluntary deregistration, i.e. where a registered micro business elects to deregister. Unless it closes down, it may only elect to deregister as a micro business after three years of being part of the Turnover Tax system. This election must be made before the beginning of the “year of assessment” for which it no longer wants to be registered for the Turnover Tax.
- Compulsory deregistration i.e. where a registered micro business no longer qualifies e.g. where the “qualifying turnover” of that micro business from carrying on business activities exceeds the R1 million cap and it cannot demonstrate that this will be a small and temporary event. The registered micro business must notify SARS within 21 days from the date on which it no longer qualifies as a micro business.

In the event of a compulsory deregistration of the micro business, that micro business will move back into the normal income tax system from the first day of the month following the month during which the business no longer qualified to be a registered micro business. It will therefore be assessed for two periods in the year of assessment – one under the Turnover Tax system and the other under the normal income tax system. The business will also have to register for VAT where it exceeds, or is likely to exceed, the R1 million threshold at which registration for VAT is compulsory.

If the micro business is deregistered from the Turnover Tax, be it voluntary or compulsory deregistration, that micro business may not re-enter the Turnover Tax system for a period of three years. This period matches the minimum period the micro business must remain in the Turnover Tax system.

### **4.9.3 Payments of Turnover Tax**

Registered micro businesses will be required to submit two interim payments and one final payment on assessment, where necessary.

The **first** interim payment must be based on an estimate of the “taxable turnover” of that micro business for the year of assessment and amounts to 50% of the Turnover Tax payable on the estimate. This estimate must not be less than the “taxable turnover” for the previous year of assessment unless SARS accepts the lower estimate. The payment must be submitted to SARS within six months from the beginning of the year of assessment.

The **second** interim payment will also be based on an estimate of the “taxable turnover” for the year of assessment and a calculation of the Turnover Tax payable on the estimate. The payment, equal to the amount of Turnover Tax payable on the estimate, less the first interim payment, must be submitted to SARS before the end of the year of assessment.

Where the estimate of the “taxable turnover” for the second interim payment is less than 80 per cent of the actual “taxable turnover” for the year of assessment, additional tax, equal to 20 per cent of the difference between the following will be charged:

- Turnover tax on the estimate; and
- Turnover tax on 80 per cent of the actual “taxable turnover” for the year of assessment.

The additional tax may be waived in certain circumstances.

SARS may estimate the interim payments that are due by a micro business where the micro business fails to make a payment that is due or where SARS is not satisfied with the amount of the interim payment that was made.

An annual (**final**) tax return with the actual amount of “taxable turnover” for the “year of assessment” must be submitted to SARS by the due date that will be set by SARS for that year of assessment. A further payment will be necessary where the assessed Turnover Tax on the actual “taxable turnover” for the year of assessment exceeds the interim payments that were made.

Where a registered micro business fails to submit the annual tax return, or where SARS is not satisfied with the return submitted, SARS may estimate the “taxable turnover” for the year of assessment and issue an assessment for the Turnover Tax due on the estimate, less the interim payments received.

Interest at the prescribed rate will be charged on all late payments and underpayments.

#### 4.9.4 Record keeping

A registered micro business must retain a record of –

- amounts received during a year of assessment;
- dividends declared during a year of assessment;
- each asset at the **end** of a year of assessment with a cost price of more than R10,000 ; and
- each liability at the **end** of a year of assessment exceeding R10,000.

#### 4.9.5 General administrative provisions

The general administrative provisions relating to, for example, returns, assessments, dispute resolution, interest, refunds and anti-avoidance provisions contained in the Income Tax Act will also apply to the Turnover Tax system.

### 4.10 Rate Table for Turnover Tax

The rates that were announced in the 2008 National Budget were revised downwards following further analysis of micro business profitability.

The revised rates for the 2009/10 “year of assessment” are as follows:

Turnover	Marginal Rates (R)
R0 - R100,000	0%
R100,001 - R300,000	1% of each R1 above R100,000
R300,001 - R500,000	R2,000 + 3% of the amount above R300,000
R500,001 - R750,000	R8,000 + 5% of the amount above R500,000
R750,001 and above	R20,500 + 7% of the amount above R750,000

## 5. DISCUSSION OF THE VAT RELIEF

### 5.1 Increase in compulsory registration threshold

Surveys amongst small businesses identified VAT as the most burdensome tax product to comply with. This is because it is transaction based and requires diligent record-keeping.

It is important to link the compulsory VAT registration threshold to the “qualifying turnover” threshold of a Turnover Tax system as businesses that have to comply with VAT, which is record-keeping intensive, should be able to comply with the standard income tax system. Therefore, there should not be a situation where a business is registered for the Turnover Tax and is forced to comply with VAT requirements at the same time. In this regard, the simplified tax system for micro businesses increases the compulsory VAT registration threshold from R300,000 to R1 million a year as a package. This is one of the ways that will reduce the compliance burden both on micro businesses that elect to register for the Turnover Tax and those that do not but choose to remain outside the VAT system.

### 5.2 Micro businesses registered for the Turnover Tax

Micro businesses are not allowed to register for VAT and remain within the Turnover Tax system. This is because the VAT system requires a high standard of record-keeping and thus a micro business that is registered for VAT should be in a position to comply with normal income tax requirements.

A micro business registered for the Turnover Tax must notify SARS within 21 days of its “qualifying turnover” exceeding R1 million for the year of assessment, or where there are reasonable grounds to believe that the amount will be exceeded. The business will then be deregistered from the Turnover Tax and registered for VAT, unless SARS is of the view that the excess will be small and temporary. The deregistration from the Turnover Tax and the liability for VAT will take effect from the beginning of the month following the month in which the “qualifying turnover” exceeded, or was likely to exceed, the prescribed cap.

SARS may also deregister a micro business from the Turnover Tax where it is satisfied that the “taxable turnover” of the micro business is sufficient to render that business liable to register for VAT i.e. where the taxable supplies of the micro business has exceeded or is likely to exceed R1 million in any period of 12 months. SARS must consult with the micro business before deregistering it on this basis.

### 5.3 VAT relief on exit

The rule is that when any vendor deregisters from the VAT system, it is required to pay VAT(exit VAT) on the lesser of the cost or market value of the assets held before deregistering.

Vendors that deregister from the VAT system following the increase in the VAT registration threshold to R1 million, will be allowed to pay the exit VAT over a period of six months.

Where a vendor deregisters from the VAT system in order to register for the Turnover Tax, further relief will be granted to that vendor by way of a deduction of up to R100,000 of the value of the assets held by that vendor prior to such deregistration. This equates to an approximate reduction of up to R12,281 in the exit VAT that will be payable.

Equally, if a person deregistered as a VAT vendor in order to register for the Turnover Tax and subsequently re-registers for VAT, the deduction that the vendor can claim on the value of assets upon re-entering the VAT system will be reduced by up to R100,000.

## 6. INCOME TAX AND VAT TRANSITION RULES

Transition rules have been put in place to cater for situations where micro businesses migrate between the Turnover Tax, income tax, and VAT systems. These rules are necessary to facilitate the migration and to avoid revenue leakage.

The transition rules cover the deregistration of a business from the Turnover Tax where it is liable to be registered for VAT, deemed wear and tear allowances, determination of base cost for CGT purposes, valuation of trading stock, and timing differences that arise where the date of accrual of income and date of receipt of the income differ.

## Annexure A

### QUICK CHECK TO SEE IF A BUSINESS QUALIFIES FOR THE TURNOVER TAX

(If the answer to any one of the following questions is “No”, the business will not qualify for the Turnover Tax for that year of assessment)

	QUESTION	YES	NO
1.	Will the “qualifying turnover” of the business be less than or equal to R1 million for the year of assessment?		
2.	Do you declare that the business is not registered for VAT or, if it is registered for VAT, that you are willing to deregister it for VAT?		
3.	Do you declare that the business does not render a “professional service”?		
4.	Do you declare that the business is not a “personal service provider” or a “labour broker” without a SARS exemption certificate (refer to 4.4.3)?		
5.	Does the business trade in one of the following forms: sole proprietor, partnership, close corporation, co-operative or company?		
6.	If the business is a partnership, do you declare that all the partners will be individuals throughout the year of assessment?		
7.	If the business is a close corporation, co-operative or company, do you declare that all of the shareholders/members will be individuals throughout the year of assessment?		
8.	Do you declare that the business is not a public benefit organisation or a recreational club?		
9.	Does the business have a year of assessment that ends on the last day of February?		
10.	Do you declare that the shareholders, members and the business do not hold shares/ interests in another close corporation, co-operative or company other than the exceptions listed in 4.4.1?		
11.	Do you declare that the “investment income” is not expected to exceed 10% of the total income of the business for the year of assessment (refer to 4.4.2)?		
12.	Do you declare that the income from the disposal of assets by the business over the year of assessment and the past two years of assessment is not expected to exceed R1.5 million in total (refer to 4.7)?		
13.	Do you declare that the business was not registered for the Turnover Tax for any of the last three years of assessment?		

**Note:** If you are a partner in more than one partnership, you will not qualify for the Turnover Tax. Your partners will still qualify if they are only partners in a single partnership and answer “Yes” to all of the questions above.

## Annexure B

An application form to register for the Turnover Tax.



**Particulars of Sole Proprietor / Applying Partner / Public Officer**

PP0INF01

First Name																Initials		
Surname																Home Tel No.		
Position held																Bus Tel No.		
ID No.						Date of Birth (CCYYMMDD)						Income Tax Ref No.			Fax No.			
Passport Country (eg: South Africa = ZAF)			Passport No.				Date of Appointment (CCYYMMDD)						Cell No.					
Email Address																		

**Particulars of Three Partners / Members / Shareholders**

Number of Partners / Members / Shareholders

**Particulars 1**

First Name																Initials		
Surname																Income Tax Ref No.		
ID No.																		

**Particulars 2**

First Name																Initials		
Surname																Income Tax Ref No.		
ID No.																		

**Particulars 3**

First Name																Initials		
Surname																Income Tax Ref No.		
ID No.																		









## TAX GUIDE FOR MICRO BUSINESSES 2009/10

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