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**SOUTH AFRICAN REVENUE SERVICE**

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**TAX GUIDE  
FOR  
MICRO BUSINESSES  
2011/12**

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Another helpful guide brought to you by the  
South African Revenue Service



[www.sars.gov.za](http://www.sars.gov.za)

# TAX GUIDE FOR MICRO BUSINESSES 2011/12

## Foreword

This guide contains information about the simplified tax system for micro businesses (businesses with a yearly turnover up to R1 million) that came 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 (VAT). 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 such as 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.

This 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* will provide useful background information to this guide. It covers topics such as: 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* is available on the SARS website at [www.sars.gov.za](http://www.sars.gov.za).

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 0800 00 72 77;
- visit the SARS website at [www.sars.gov.za](http://www.sars.gov.za); or
- contact your own tax advisor/practitioner

Comments or suggestions on this guide may be sent to [policycomments@sars.gov.za](mailto:policycomments@sars.gov.za).

Prepared by

**Legal and Policy Division**  
**SOUTH AFRICAN REVENUE SERVICE**  
July 2011

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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 an 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, No. 58 of 1962
<b>Investment income</b>	Any income in the form of annuities, dividends, interest, rental derived from immovable property, royalties and any proceeds derived from the disposal of financial instruments.
<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 turnover tax.
<b>Professional service</b>	A service in the field of accounting, actuarial science, architecture, auctioneering, auditing, broadcasting, consulting, draftsmanship, education, engineering, financial service broking, health, information technology, journalism, law, management, real estate broking, research, 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, for example, 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 turnover tax.
<b>SARS</b>	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. It generally runs from the beginning of March of one year 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, capital gains tax (CGT), secondary tax on companies (STC), and an increase in the value-added tax (VAT) compulsory registration threshold from R300 000 to R1 million. Turnover tax is optional, meaning that a micro business can decide if it wants to use it or the current tax system. It is available to sole proprietors (individuals), partnerships, close corporations, co-operatives and companies with effect from 1 March 2009.

### 2.3 How will 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, 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 – R150 000	0%
R150 001 – R300 000	1% of each R1 above R150 000
R300 001 – R500 000	R1 500 + 2% of the amount above R300 000
R500 001 – R750 000	R5 500 + 4% of the amount above R500 000
R750 001 and above	R15 500 + 6% of the amount above R750 000

### 2.5 When and how will turnover tax be payable?

Turnover tax will be levied annually on a year of assessment that runs from the beginning of March of the one year to the end of February of the following year. It will include two six-monthly interim (provisional) payments. An existing micro business that opts for 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 turnover tax for three years commencing from the beginning of the year of assessment following the year of assessment during which it is deregistered. A new micro business can register for turnover tax within two months from commencing business activities.

## **2.6 How will capital gains be treated?**

Micro businesses that choose turnover tax will be specifically exempt from CGT. However, the taxable turnover must include 50% of the amounts received from the disposal of –

- immovable property mainly used for business purposes, other than trading stock; and
- any other asset used mainly for business purposes, other than any financial instrument.

## **2.7 How will dividend distributions be treated?**

Micro businesses that choose turnover tax will also be exempt 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 or levies such as employees' tax, unemployment insurance fund (UIF) contributions, and the skills development levy (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 compulsory VAT registration threshold of R300 000 was 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 turnover tax will not be permitted to register for VAT, which requires careful record-keeping.

## **2.10 Relief from exit VAT**

A vendor that deregisters from the VAT system 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 *in order to register for turnover tax* will be allowed to pay the exit VAT over six months.

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 before deregistration. This equates to an approximate reduction of up to R12 281 in the exit VAT that will be payable.

## **2.11 What happens if the qualifying turnover is exceeded?**

A micro business registered for 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 turnover tax and will be registered for VAT, 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 turnover tax if 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 proceeding 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 turnover tax**

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

## **2.14 Application to register for 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 in 2007, South African tax practitioners charge their small business clients an average of R7 030 a year 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 a year 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.

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

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

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 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**

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, turnover tax is housed in the 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 turnover tax if they are registered for VAT.

## **4. Turnover tax**

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

Turnover tax will be available to sole proprietors (individuals), partnerships, close corporations, co-operatives and companies. Unless one of the grounds for disqualification discussed below applies, a business whose qualifying turnover does not exceed R1 million in any year of assessment can elect to be taxed in terms of this system. The total turnover of all business activities of a person that trades in different types of businesses 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.
- 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 (that is, 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 (for example, 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 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 bodies corporate and share block companies;
- in venture capital companies;
- of less than 5% in social or consumer co-operatives;
- of less than 5% in co-operative burial societies or primary savings co-operative banks;
- in friendly societies;
- in any company that did not trade during any year of assessment, and which did not own assets with a total market value that exceeds R5 000 during any year of assessment; and
- in any company that has taken steps to liquidate, wind up or deregister.

#### **4.4.2 Limit on investment income**

A business that trades as a close corporation, company or co-operative is disqualified if more than 20% of its total income consists of income from professional services and 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. Investment income received by natural persons (sole proprietors and partnerships) will be taxable in the hands of the individuals according to the standard income tax provisions. The reason for this is to cater for the common law principle that businesses operating as sole proprietors and partnerships 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.

#### **4.4.3 Personal service providers and certain labour brokers 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% 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 (SITE and 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 Limitation on income from rendering professional services**

A business that trades as a close corporation, company or co-operative is disqualified from turnover tax if more than 20% of its total income consists of income from professional services and investment income. For natural persons (sole proprietors and partnerships), the 20% restriction is limited to professional services only. Professional 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 turnover tax.

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<sup>2</sup> For full definition, refer to paragraph 1 of the Fourth Schedule to the Income Tax Act.

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

#### **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.

### **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 R1 million for the year of assessment in order for each individual partner to qualify for turnover tax.

As mentioned above, a partnership will also be disqualified from 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 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 (that is, cash basis) from conducting business activities in South Africa less any amounts refunded to any person in respect of goods and services, 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 under 4.7.
- In the case of a close corporation, co-operative or company, the investment income received, other than dividends.

#### **4.6.2 Specific exclusions from taxable turnover**

- Investment income received by sole proprietorships (individuals) and partnerships – see 4.4.2.

- 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 before registering for 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.
- Any refund received from any person for goods and services.

#### **4.7 Capital gains tax (CGT)**

A micro business that registers for turnover tax will be exempt 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 used mainly for business purposes, other than trading stock; and
- of a capital nature from the sale of any other assets used mainly in the business, other than any financial instrument.

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 in the two classes mentioned above exceed 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)**

A qualifying micro business 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, if it is a co-operative, close corporation or company.

The excess of any dividend distribution exceeding R200 000 a year, 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 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*, that is, where a registered micro business elects to deregister. Unless it closes down, it may only elect to deregister as a micro business after being registered for turnover tax for at least three years. This election must be made before the

beginning of the year of assessment for which it no longer wants to be registered for turnover tax.

- *Compulsory deregistration*, that is, where a registered micro business no longer qualifies. The qualifying turnover of this 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 be moved back into the standard income tax system from the first day of the month following the month during which the business no longer qualifies 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.

A micro business that is deregistered from turnover tax, be it voluntary or compulsory deregistration, may not re-enter the turnover tax system for 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 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 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% of the actual taxable turnover for the year of assessment, additional tax, equal to 20% of the difference between the following will be charged:

- Turnover tax on the estimate; and
- Turnover tax on 80% 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.

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

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 Rates table for turnover tax**

The revised, lower rates for the 2011/12 year of assessment are as follows:

<b>Turnover</b>	<b>Marginal Rates (R)</b>
R0 – R150 000	0%
R150 001 – R300 000	1% of each R1 above R150 000
R300 001 – R500 000	R1 500 + 2% of the amount above R300 000
R500 001 – R750 000	R5 500 + 4% of the amount above R500 000
R750 001 and above	R15 500 + 6% of the amount above R750 000

### **5. Value-added tax (VAT) relief**

#### **5.1 Increase in compulsory registration threshold**

Surveys among 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 the 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 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 turnover tax and those that do not but choose to remain outside the VAT system.

## **5.2 Micro businesses registered for VAT**

Micro businesses are not allowed to register for turnover tax if they are registered for VAT. 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 the standard income tax requirements.

A micro business registered for 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 turnover tax and registered for VAT, unless SARS is of the view that the excess will be small and temporary. The deregistration from 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 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, that is, the taxable supplies of the micro business has exceeded or is likely to exceed R1 million in any 12-month period. SARS must consult with the micro business before deregistering it on this basis.

## **5.3 VAT relief on exit**

A vendor that deregisters from the VAT system is required to pay VAT (exit VAT) on the lesser of the cost or open market value of the assets held before deregistering. Vendors that deregister from the VAT system *in order to register for the turnover tax* will be allowed to pay the exit VAT over six months.

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 before deregistration. This equates to an approximate reduction of up to R12 281 in the exit VAT that will be payable.

## **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 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 test 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 turnover tax for that year of assessment)

### Quick test for individuals and partnerships

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? (It must be noted that a business will be allowed to register for VAT and turnover tax from 1 March 2012.)		
3. Does the business have a financial year that ends on the last day of February?		
4. Do you declare that the business was not registered for turnover tax for any of the last three years of assessment?		
5. Do you declare that income from professional services is not expected to exceed 20% of the total income of the business for the year of assessment (refer to 4.4.2 and 4.4.4)?		
6. 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)?		
7. Do you declare that the business is not a public benefit organisation or a recreational club?		
8. Do you declare that the business is not a labour broker without a SARS exemption certificate (refer to 4.4.3)?		
9. If the business is a partnership, do you declare that all the partners will be individuals throughout the year of assessment?		
10. Do you declare that the owner or any partner does not hold shares or interests in a close corporation, co-operative or company other than the exceptions listed in 4.4.1?		

**Note:** A partner in more than one partnership will not qualify for “turnover tax”. The other partners may still qualify if they are only partners in a single partnership and do not answer “No” to any of the questions above.

### Quick test for close corporations, companies and co-operatives

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 (It must be noted that a business will be allowed to register for VAT and turnover tax from 1 March 2012)?		
3. Does the business have a year of assessment that ends on the last day of February?		
4. Do you declare that the business was not registered for turnover tax for any of the last three years of assessment?		
5. Do you declare that income from professional services and investment income is not expected to exceed 20% of the total income of the business for the year of assessment (refer to <b>4.4.2</b> and <b>4.4.4</b> )?		
6. 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 <b>4.7</b> )?		
7. Do you declare that the business is not a public benefit organisation or a recreational club?		
8. Do you declare that the business is not a personal service provider (refer to <b>4.4.3</b> )?		
9. Do you declare that all of the shareholders or members will be individuals throughout the year of assessment?		
10. Do you declare that the shareholders, members and the business do not hold shares or interests in another close corporation, co-operative or company other than the exceptions listed in <b>4.4.1</b> ?		



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

PPOINF01

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 (e.g. South Africa = ZAF)			Passport no.				Date of appointment (CCYYMMDD)						Cell no.								
Email address																					

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

PPOINF01

Number of partners / members / shareholders

**Particulars 1**

First name																Initials			
Surname																Income tax ref no.			
ID no.																			

Income Tax ref no: XXXXXXXXXXXXXXXX



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## Annexure C – Case study: Standard tax versus simplified tax

Ms X is 34 years old and operates a clothing retail store as a sole proprietor (individual). The business is expected to make a turnover of R480 000 (excluding VAT – R547 200 including VAT) for its first year of assessment that runs from 1 March 2011 to 29 February 2012. The business is registered for income tax and VAT.

Under the current tax system, the business will generally have to lodge the following returns and payments with SARS (for ease of explanation, assume that that the turnover is generated uniformly over the year of assessment at R40 000 per month, the final taxable income for income tax purposes is R120 000, and VAT input claims constitute 75% of output VAT levied):

### STANDARD TAX SYSTEM (10 returns)

	R	R	R
<b>VAT (6 returns)</b>			<b><u>16 800</u></b>
VAT return 1 for March and April 2011		2 800	
VAT output on R80 000	11 200		
VAT input on R60 000	<u>(8 400)</u>		
VAT return 2 for May and June 2011		2 800	
VAT return 3 July and August 2011		2 800	
VAT return 4 for September and October 2011		2 800	
VAT return 5 for November and December 2011		2 800	
VAT return 6 for January and February 2012		<u>2 800</u>	
<b>Total VAT for the year</b>			<b><u>16 800</u></b>
<b>Personal income tax (4 returns)</b>			<b>11 340</b>
<u>Provisional tax (3 returns)</u>			
Provisional tax return 1 on estimated taxable income of R100 000 for the year of assessment – due by 31 August 2011: (Tax payable = R7 245. Pay 50% for first 6 months)		3 623	
Provisional tax return 2 on estimated taxable income of R110 000 for the year of assessment – due by 29 February 2012 (Tax payable = R9 045 less provisional tax payment 1 of R3 623)		5 422	
Provisional tax return 3 (top up) on actual taxable income of R120 000 for the year of assessment – due by 30 September 2012 (Tax payable = R10 845 less provisional tax payments 1 and 2)		<u>1 800</u>	
<b>Total provisional tax paid for the year of assessment</b>			<b><u>10 845</u></b>
<u>Final income tax on assessment (1 return)</u>			
Annual return and assessment		10 845	
R120 000 x 18%	21 600		
Less: Primary rebate	<u>(10 755)</u>		
Less: Provisional tax paid (R3 623 + R5 422 + R1 800)		<u>(10 845)</u>	
<b>Tax due on assessment</b>			<b><u>Nil</u></b>

### SIMPLIFIED TAX SYSTEM (1 return)

A business that is registered for turnover tax will not be able to register for VAT and claim VAT input tax. To maintain her profit margin, Ms X will have to increase her selling prices to recover the VAT that she pays to her suppliers. Her turnover will therefore increase to R547 200 and her profit to R136 800.

	R	R	R
<b>VAT</b>			<b>Nil</b>
<b>Turnover tax</b>			<b>7 388</b>
<u>Interim tax (2 payments)</u>			
Interim tax payment <b>1</b> on estimated taxable turnover of R500 000 for the year of assessment – due by 31 August 2011: (Turnover tax payable = R5 500. Pay 50% for first 6 months)			
		2 750	
Interim tax payment <b>2</b> on estimated taxable turnover of R530 000 for the year of assessment – due by 29 February 2012 (R6 700 less interim tax payment <b>1</b> of R2 750)			
		<u>3 950</u>	
Total interim tax paid for the year of assessment		<u>6 700</u>	
<u>Final turnover tax on assessment (1 return)</u>			
Annual return and assessment		7 388	
Tax up to R500 000	5 500		
Tax at 4% on R47 200	<u>1 888</u>		
Less: Interim tax paid		<u>(6 700)</u>	
<b>Tax due on assessment</b>		<u><b>688</b></u>	