

Many SMEs face tax-related regulatory burden, and there is little doubt that navigating through all the tax requirements can be a daunting. Tax is levied on income and profit received by a taxpayer, which includes individuals, companies and trusts.

The three types of taxes that small businesses are required to pay are as follows: (a) turnover tax, (b) employee taxes (PAYE, UIF and SDL) and (c) value-added tax (VAT).

The following is a brief overview of small businesses' tax obligations, the process and taxation laws.

How do small businesses qualify to pay for taxes?

If a small business is trading as a company or close corporation, it must register for income tax. If the business employs staff it must also register for PAYE, UIF and SDL (if total annual payroll exceeds R500k per annum). If the small business has turnover exceeding R1 million per annum it is required to register as a VAT vendor.

What is Turnover Tax?

Turnover tax is a simplified tax system for small businesses with a qualifying turnover of not more than R1 million per annum. It is a tax based on the taxable turnover of a business and is available to sole proprietors (individuals), partnerships, close corporations, companies and co-operatives. Turnover tax takes the place of VAT (in the instance that you have not decided to elect back into the VAT system), provisional tax, income tax, capital gains tax, secondary tax on companies (STC) and dividends tax. So qualifying businesses pay a single tax instead of various other taxes. It's elective – so you may choose whether to participate. Below are the tax rates for financial years ending on any date between 1 April 2017 and 31 March 2018:

| Taxable income (R) | Rate of tax (R) |
|--------------------|--|
| 0 – 75 750 | 0% |
| 75 751 – 365 000 | 7% of taxable income above 75 750 |
| 365 001 – 550 000 | 20 248 + 21% of taxable income above 365 000 |
| 550 001 and above | 59 098 + 28% of taxable income above 550 000 |

How do small businesses register for turnover tax?

Small businesses or individuals will need to complete a short test to see if they qualify for turnover tax, which is available on the SARS website. If they qualify for turnover tax, they will need to complete and submit the relevant application form. The application should be submitted before the beginning of a year of assessment, which runs from 1 March to 28 February.

Should a new micro business start trading during a year of assessment and wishes to register for turnover tax, an application must be submitted within two months from the date that the business started. Existing micro businesses can register for, or switch to turnover tax before the start of a new tax year.

How do small businesses account for VAT?

In accordance with the VAT Act, if registered for VAT, small businesses have to issue proper tax invoices and charge their customers VAT at 14%, and pay any calculated net VAT amounts over to SARS on a monthly or bi-monthly basis. This payment is calculated by reducing the VAT charged with the input VAT that the small business paid to its suppliers.

What type of records should small business owners keep for tax purposes?

If you're a small to medium sized business owner, it's up to you to maintain records of all documents pertaining to your tax return, such as bank statements, sales invoices, credit notes, suppliers invoices and payroll records. These records should not only be kept during the course of the tax year for filing purposes, but you are also required to keep these records.

What are the consequences of not complying with tax requirements?

Interest on unpaid taxes and severe penalties, an Administrative Non-Compliance Penalty is a penalty a taxpayer must pay for non-compliance with various requirements. An admin penalty comprises of fixed amount penalties as well as percentage-based penalties. The penalty amount that will be charged depends on a taxpayer's taxable income, for each month that the non-compliance continues.

Why is the tax process for small businesses still so complicated?

There are far too many regulations and statutory requirements. The registration system for VAT and payroll taxes is very detailed and can become a long process. Small businesses may consider to acquire the services of an accountant or tax practitioner to assist them in this process.

Has SARS made it easier for small business owners to register and pay for taxes independently, or are they still reliant on tax practitioners?

It is still far too complicated and involved to register for taxes. E-filing has made things easier to process and pay taxes, however this system can still be complicated in certain areas. Many small businesses therefore prefer to make use of tax practitioners, or go to a SARS office for assistance.