

Budget 2015 : Tax relief for micro businesses, but is it enough?

The South African National Treasury noted in 2013 that small, micro and medium enterprises account for 55 per cent of employment in South Africa. Accordingly, small business has been a focal point for the National Development Plan, including the National Treasury's tax policy, in recent years.

Over and above a generally weak domestic economy, small businesses must cope with a lack of skilled personnel, supply constraints due to infrastructure backlogs and inefficient product and labour markets, bureaucracy and a lack of funding. The latter is especially pertinent in a low real interest rate environment in which lenders are reticent to fund new and innovative, but ultimately more risky, investments.

As noted in previous commentaries, Laurence Harris, from the University of London, has argued that innovation is the driving force behind growth as entrepreneurs implement new ideas in production processes, which promote productivity. South Africa is not short of ideas. The World Economic Forum's Global Competitiveness Report for 2014/15 ranks South Africa 35th in the world for capacity to innovate and 34th for the quality of its scientific research institutions. Admittedly, these are not top of the class outcomes, but they are significantly better than the country's overall competitiveness ranking of 56th.

However, the ideas generated by South Africa's researchers need to see the light of day. The Department of Science and Technology has observed that the patenting rate in South Africa is relatively low. This implies that the country is not extracting the maximum possible benefit from its research efforts.

Harris has argued that South Africa should pursue the commercialisation of ideas, including the use of venture capital funds. But, despite its sophisticated financial system, South Africa ranks only 37th in the world as regards availability of venture capital, which could make a useful contribution in the drive to turn ideas into business activity.

At least the National Treasury has taken note. In addition to previously introduced measures, including funding support through the Industrial Development Corporation, it seems as though the Treasury is increasingly shifting towards incentivising venture capital funding. This is a positive development. Although fiscal policy does not cultivate entrepreneurship, it can be supportive thereof.

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Further, for the 2015/16 National Budget, the Treasury has made the turnover tax regime for qualifying micro business more attractive, by proposing to adjust the rates and thresholds of the turnover tax. Through turnover tax qualifying small businesses can elect to pay a single tax, rather than the various other taxes applicable to these businesses. The proposed new turnover tax regime tax rates are included in the table below.

⦿ Turnover tax regime proposals – Budget 2015/16

01 April 2014 - 31 March 2015		01 April 2015 - 31 March 2016	
Turnover (Rand)	Rates of tax	Turnover (Rand)	Rates of tax
R 0 - R150 000	0% of taxable turnover	R 0 - R 335 000	0% of taxable turnover
R 150 001 - R 300 000	1% of the amount above R 150 000	R 335 001 - R 500 000	1% of the amount above R 335 000
R 300 001 - R 500 000	R 1 500 + 2% of the amount above R 300 000	R 500 001 - R 750 000	R 1 650 + 2% of the amount above R 500 000
R 500 001 - R 750 000	R 5 500 + 4% of the amount above R 500 000	R 750 001 - R 1 000 000	R 6 650 + 3% of the amount above R 750 000
R 750 001 - R 1 000 000	R 15 500 + 6% of the amount above R 750 000		

Source: South African National Treasury, Budget Review, p. 49.

Concomitantly, relatively small adjustments were made to qualifying small business corporation tax rates. One may ask what happened to the Treasury's proposal to tax small businesses at a flat corporate tax rate of 28 per cent (and not according to the reduced tax rates), while offering an annual Refundable Compliance Rebate (RCR) of R15 000 to small businesses. These ideas were *initially* published in the Draft Taxation Laws Amendment Bill, 2014 and were driven by the argument that lower tax rates tend to benefit profitable businesses, but not new, non-profitable businesses. Also, loss-making businesses are still saddled with a material compliance burden.

However, counter arguments made during the presentation of the Draft Amendment Bill to the Standing Committee on Finance in Parliament included the critique that many small businesses would be in a more disadvantageous tax position under the proposed change. In addition, the proposed RCR amount apparently did not provide sufficient compensation for compliance costs.

⦿ Tax rates for qualifying small business corporations – Budget 2015/16

01 April 2014 - 31 March 2015		01 April 2015 - 31 March 2016	
Taxable income (Rand)	Rates of tax	Taxable income (Rand)	Rates of tax
R0 - R 70 700	0%	R0 - R73 650	0%
R 70 701 - R 365 000	7% of the amount above R 70 700	R 73 651 - R 365 000	7% of the amount above R 73 650
R 365 001 - R 550 000	R 20 601 + 21% of the amount above R 365 000	R 365 001 - R 550 000	R 20395 + 21% of the amount above R365 000
R 550 001 and above	R 59 451 + 28% of the amount above R 550 000	R 550 001 and above	R 59 245 + 28% of the amount above R 550 000

Source: South African Revenue Service

In any event, clearly, the National Treasury is aware of the constraints that an onerous tax burden places on businesses. But, in the absence of the removal of other constraints on economic activity as listed above, the tax amendments are surely insufficient to kick-start small business growth and employment.

Moreover, although the amendments to the turnover tax are welcome, a more fundamental change is required to align tax policy with the growth objective in South Africa through a meaningful shift towards indirect taxes relative to income tax. The latter, after all, is a disincentive to the willingness of economic agents to work, save and invest.

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