

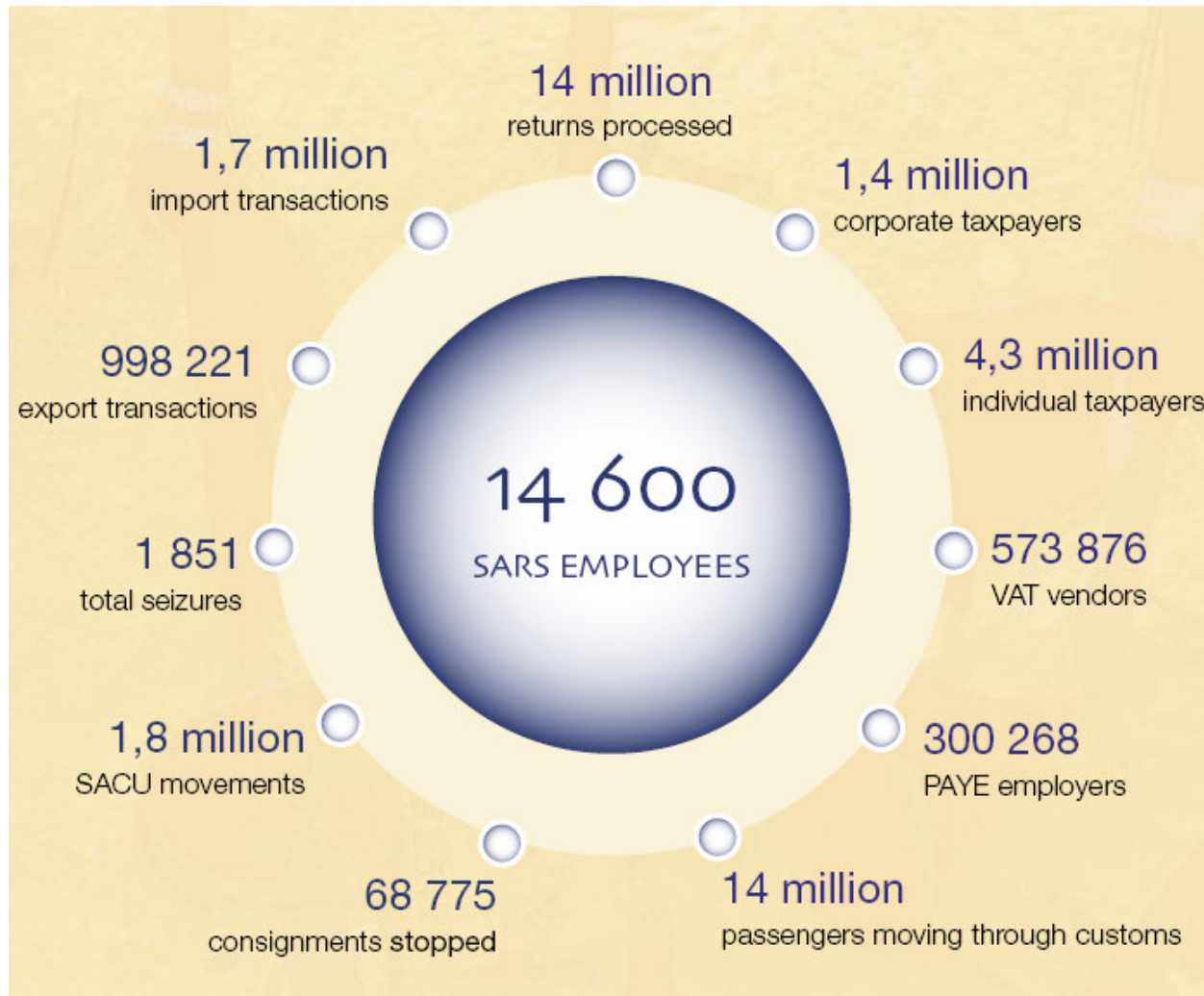
**International Conference on Reforming the Business Environment
Cairo, Egypt - 29 November to 1 December 2005**

A TAX ADMINISTRATION'S PERSPECTIVE ON SMALL BUSINESS TAX REGIMES

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30 November 2005**



General Information



Total Population

- 46m people

GDP (2004/5)

- +/- US\$220bn

Tax as a % of GDP

- 25%

The Tax Admin Dilemma

Assisting Small Business is not a revenue spinner (revenue maximisation being one of the traditional objectives of any tax administration) –

- On a cost vs. benefit basis making valuable resources available to assist small business yields little to no revenue in the shorter-term
- Spending money on programs to assist small business counts negatively against the administration when considering the cost to collection ratio
- Risk assessment models are geared to maximise audit results with the least amount of time spent (effective and efficient resource utilisation)

Such an initiative seems contrary to everything else a tax administration does

South African Landscape

In South Africa we have –

- A dual economy, one developed and sophisticated and the other developing and unsophisticated (as pointed out by Richard)
- A large informal sector (largely non-compliant)
- A high number of persons operating small businesses with limited education and also lacking adequate business skills
- Numerous and differing definitions of what constitutes a small business (Governmentally)
- A desire to stimulate vibrant small business entrepreneurship as a key ingredient for higher economic growth and wealth creation

A Two-pronged Approach

Two different regimes –

- One for the “formal” small business (in place)
- One for the “informal” small business (not yet in place)

“Formal” Small Business Regime

- Incorporated small businesses may participate in the Small Business Corporation (SBC) regime
 - Turnover must not exceed R6m (US\$925k) *per annum*
 - Graduated tax rate structure
 - R0 to R35k (US\$0 to US\$5,4k) - 0%
 - R35k to R250k (US\$5,4k to US\$38,5k) - 10%
 - In excess of R250k (US\$38,5k) - 29% (Normal CIT rate)
 - Manufacturing assets qualify for an immediate 100% write-off
 - May include personal service companies, provided they employ more than 3 full-time employees
- All small businesses
 - VAT retail scheme – simplified method of accounting (turnover < R1m pa [US\$155k])
 - VAT return filing every 4 months (rather than every 2 months) where turnover < R1m pa

“Formal” Regime Lessons

Some lessons learnt in South Africa–

- Marginal effective tax rate (METR) is high relative to the general tax system (as pointed out by Richard)
 - 100% write-off on manufacturing assets is diluted by the graduated rate structure
 - Don't entirely agree with Richard's VAT reclaim comment. This is correct for small businesses not rendering services. Many studies have shown that small business growth has been predominantly in the service sector
- VAT retail scheme
 - Very poor take-up by qualifying vendors
- VAT return filing every 4 months
 - Introduced as a result of a major complaint by small businesses that VAT is too complex (although we believe it is not VAT *per se* but the accounting requirements that VAT essentially enforces)
 - Poor take-up by qualifying vendors

“Informal” Regime

Proposals are currently being formulated in SA for the “informal” regime

Taking note of both Richard and Jackie’s presentations –

- We seek to simplify and streamline our normal tax regime as far as possible making it easier for small business to comply
- Any regime to be implemented should not become a “refuge” where small business stagnates – there must be sufficient incentive for small business to want to “outgrow” such regime
- We would prefer not to implement a presumptive tax but are interested in a single tax along the lines of a “patent”, something that has worked reasonably well in South America. The target grouping in this regard would be all businesses not registered for taxes (i.e. non-compliers who make no fiscal contribution) and the contribution particularly in the South American context, purchases the payer some form of “social benefit” in order to encourage compliance

“Informal” Regime (2)

- Qualification criteria should be simple and the regime should be limited to the micro-sized business, criteria could include –
 - Turnover
 - Floor space utilised
 - Consumption of power (electricity)
 - Unit price of good or service sold
- Requires minimum resource from a tax administration point of view
- Allows the tax administration some control in terms of at least being aware of such businesses
- Need to establish how these small businesses can ultimately migrate into the normal tax regime smoothly

Service Offerings

A number of service offerings for small business were launched during the course of 2005 –

- Community Tax Helpers
 - Staff freed by restructuring and greater efficiency have been deployed to visit small businesses to help them and educate them about registration, return completion, and businesses' tax obligations
- Small Business Help Desks
 - Dedicated facilities for small business have been made available at the call centre and in branch offices. This is coupled with extended hours for selected offices
- Accounting and Payroll Packages
 - Software will be available for release shortly and SARS will also be hosting web-based systems accessible via the internet or at kiosks SARS will be setting up
- Focus on VAT Education
 - A specific initiative in respect of VAT has been launched

Thank You