Budget 2020: SMMEs, just hang in there!

Johannesburg, 27 February 2020 – South African small, medium and micro-enterprises (SMMEs) are struggling with weak economic growth, load shedding and crime. The regulatory burden also continues to hamper the growth of these businesses and their employment creation abilities. The struggle is evidenced by the reduction in tax expenditure in relation to the Small Business Corporation incentive – an incentive providing small businesses with a reduced tax rate and accelerated asset allowances – from R2.8 billion in 2016/17 to R2.5 billion in 2017/18, indicating that small businesses' taxable profits are on the decline, writes Sharon Smulders, SAICA Project Director: Tax Advocacy.

The 2020 Budget did, however, provide some light (albeit feint) in the darkness for small businesses.

Tax rates – to be reduced

Minister of Finance, Mr Tito Mboweni, stated that the tax base would be broadened and tax rates would be reduced as currently South Africa's 28% tax rate is higher than many of its trading partners. Broadening the base will involve minimising tax incentives, and introducing new interest deduction and assessed loss limitations. Rate reductions will be implemented in a revenue-neutral manner to encourage businesses to invest and expand production.

Micro businesses and Small Business Corporation tax rate changes

The tax rates for micro businesses remained unchanged from 2018/19 (set Figure 1 below), the tax rates for Small Business Corporations changed slightly for the 2019/20 and the 2020/21 years of assessment (Figure 2).

Figure 1: Turnover tax rates for micro businesses

Financial years ending on any date between 1 March 2019 and 28 February 2020 (unchanged since prior year)

Taxable turnover	**Rate of tax**
R	**R**
1 – 335 000	0% of taxable turnover
335 001 – 500 000	1% of taxable turnover above 335 000

500 001 – 750 000	1 650 + 2% of taxable turnover above 500 000
750 001 and above	6 650 + 3% of taxable turnover above 750 000

Figure 2: Tax rates for Small Business Corporations

Financial years ending on any date between 1 April 2019 and 31 March 2020

Taxable income	Rate of tax
R	**R**
0 – 79 000	0% of taxable income
79 001 – 365 000	7% of taxable income above 79 000
365 001 – 550 000	20 020 + 21% of taxable income above 365 000
550 001 and above	58 870 + 28% of the amount above 550 000

Financial years ending on any date between 1 April 2020 and 31 March 2021

Taxable income	Rate of tax
R	**R**
0 – 83 100	0% of taxable income
83 101 – 365 000	7% of taxable income above 78 150
365 001 – 550 000	19 733 + 21% of taxable income above 365 000
550 001 and above	58 583 + 28% of the amount above 550 000

Regulatory costs – steps introduced to ease burden

To ease the very high regulatory burden and the cost of doing business in South Africa (South Africa has dropped to 84th out of 190 economies in the World Bank's Ease of Doing Business report; in 2008 South Africa was ranked on 32) it was announced that it is now possible to register a new business with CIPC, SARS, the

UIF and the Compensation Fund in one day on the CIPC BIZportal. Regulations are also being relaxed to help the flourishing FinTech sector and the Competition Commission rulings released in December 2019 will result in lower data costs.

Funding – additional grants & loans

It was also announced that the Small Enterprise Finance Agency (SEFA) will continue providing support to smaller businesses through grants. In this regard, the Black Business Supplier Development Programme, Cooperatives Incentive Schemes and the National Informal Business Upliftment Scheme are allocated R1.4 billion over the medium term to support small businesses and cooperatives.

From a financing perspective, SEFA will be collaborating with government and the private sector to provide financing through a blended model involving loans and grants. The Small Enterprise Development Agency (SEDA) is also allocated R2.8 billion to provide support to SMMEs, including increasing the incubation network in rural areas and townships. Over the medium term, R107.1 million will be reprioritised to refurbish 27 industrial parks in various townships. Township economic development (including industrial parks) will form part of the mandate of a newly created ***Economic Development Coordination Forum*** that has been established to improve the coordination of economic development initiatives between provincial and national governments. This forum, chaired jointly by the National Treasury and the Department of Trade, Industry and Competition, will include participants from provincial treasuries and sector departments, as well as the Department of Small Business Development (DSBD), the Department of Cooperative Governance and the South African Local Government Association (SALGA). This forum will be tasked with examining data for economic development, policy and alignment issues to ensure that an enabling environment is created for business development.

It was mentioned that the DSBD has also begun to operationalise the Small Business Innovation Fund (R2.8 billion has already been allocated) through the Small Enterprise Agency, after Parliament asked for feedback on this process. It is interesting to note that, in terms of the DSBD's Annual Report 2018/19, it only met 62% of its set targets and transfers the bulk of its budget (over R840 million) to the SEDA, whereas over R350 million was used internally for grants.

Venture Capital Company (VCC) incentive – to be reviewed

The venture capital company tax incentive, introduced in 2008, provides a tax deduction for the purchase of shares in venture capital companies, which in turn invest those funds in qualifying small businesses. Despite a dismal uptake of the incentive in 2008 (only 1), following various amendments, the incentive has seen a substantial increase in take-up in recent years. However, the industry has warned that the new thresholds for deductions that investors can make under Section 12J of the Income Tax Act enacted this year (deduction limited to R2.5m per year), will reduce the amount of funds that venture capital companies can raise. In terms of the 2020 Budget Speech the effectiveness, impact and role of this regime will be reviewed to ascertain whether the incentive should be discontinued – it currently has a sunset clause of 30 June 2021.

Finance Minister, in the 2020 Budget Speech, once again reiterated that government is focusing on structural reforms to support small businesses. Although the allocation of funds and introduction of reforms sound promising, the effectiveness of the DSBD and these funding initiatives/reforms need to be tracked and evaluated. The proof that these measures are providing an enabling environment for faster and more inclusive economic growth amongst small businesses needs to be clearly evident to ensure that taxpayers' money is being spent wisely – at the moment, this evidence is far from what we would like it to be.

As many of the proposed reforms will only realise in the medium term, small businesses will have to just hang in there until the government initiatives have made a serious impact on the regulatory burdens, crime and electricity supply shortages faced by small businesses.

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