



## Introduction

This leaflet provides an overview of the form of micro and small businesses in South Africa, namely:

- Sole proprietorship;
- Partnerships;
- Private companies (this includes Close Corporations and co-operatives);
- Small Business Corporations; and
- Micro business registered for Turnover Tax.

This leaflet also explains in general terms the tax responsibilities of each form of business.

A person wishing to start a business must decide what type and form of business entity to setup (which will be best suited to their own specific circumstances and needs). There are legal, tax and other considerations that can influence this decision. The legal and other considerations are beyond the scope of this leaflet while the tax consequences of conducting business through each form of business will be an important element in making such a decision.

The purpose of this leaflet is not to provide advice on the type of business entity through which to conduct a business, but to provide entrepreneurs with a broad overview of the categorization of micro and small businesses by the South African Revenue Service (SARS).

Type of business	Description	Tax responsibilities
Sole proprietorship	<ul style="list-style-type: none"><li>• The business is owned and operated by a natural person.</li><li>• This is the simplest form of business entity.</li><li>• The business has no existence (therefore it is not a “legal person” such as a “company” as defined in the Income Tax Act) separate from the owner who is called the proprietor.</li><li>• The owner must include the income from such business in his or her own personal income tax return and is responsible for the payment of taxes thereon.</li><li>• Only the owner has the authority to make decisions for the business.</li><li>• The owner assumes the risks of the business to the extent of all of his or her assets whether used in the business or not.</li></ul>	<ul style="list-style-type: none"><li>• Liable for Income Tax, which must be reflected in the Income Tax Return (ITR12).</li><li>• Depending on the amount of taxable supplies for a 12 month period, such business may register voluntarily for Value-Added tax (VAT). If taxable supplies exceed R1 million for a 12 month period VAT registration is compulsory.</li></ul>

Type of business	Description	Tax responsibilities
Partnership	<ul style="list-style-type: none"> <li>• A partnership (or unincorporated joint venture) is the relationship existing between two or more persons who join together to carry on a trade, business or profession.</li> <li>• A partnership is also not a separate legal person or taxpayer.</li> <li>• Each person may contribute money, property, labour or skills, and each expects to share in the profits and losses of the partnership. It is similar to a sole proprietorship except that a group of owners replaces the sole proprietor. The number of persons who may form a partnership agreement is limited to 20.</li> </ul>	<ul style="list-style-type: none"> <li>• Each partner is taxed on his or her share of the partnership profits.</li> <li>• A partnership is regarded as a separate person for VAT purposes as it is included in the definition of “person” in section 1(1) of the VAT Act.</li> </ul>
Micro businesses registered for Turnover Tax	<ul style="list-style-type: none"> <li>• Turnover Tax is a simplified tax system for micro businesses with an annual turnover of no more than R1 million.</li> <li>• This tax system is applicable to sole proprietors (individuals), partnerships, close corporations, companies and co-operatives.</li> <li>• A person qualifies as a micro business if that person is a – <ul style="list-style-type: none"> <li>o natural person (or the deceased or insolvent estate of a natural person that was a registered micro business at the time of death or insolvency); or</li> <li>o company,</li> </ul> </li> <li>• And the “qualifying turnover”, of that person for the year of assessment does not exceed R1 million.</li> </ul>	<ul style="list-style-type: none"> <li>• Turnover Tax takes the place of VAT, Provisional Tax, Income Tax, Capital Gains Tax, and Dividends Tax.</li> <li>• A micro business may, however, be registered for VAT whilst registered under the tax regime for micro businesses</li> <li>• Qualifying businesses pay a single tax instead of various other taxes. It’s elective – so you choose whether to participate.</li> </ul>

Type of business	Description	Tax responsibilities
Private company	<ul style="list-style-type: none"> <li>• A private company is treated by law as a separate legal entity and must register as a taxpayer in its own right.</li> <li>• It has a life separate from its owners with rights and duties of its own.</li> <li>• The owners of a private company are the shareholders.</li> <li>• The managers of a private company may or may not be shareholders.</li> <li>• A private company may not have an interest in a Close Corporation. The maximum number of shareholders is restricted to 50.</li> </ul>	<ul style="list-style-type: none"> <li>• The company is responsible for the payment of taxes.</li> <li>• Shareholders have limited liability, that is, they are generally not responsible for the liabilities of the company.</li> <li>• However, certain tax liabilities do exist. One such liability is where an employer or vendor is a company, every shareholder and director who controls or is regularly involved in the management of the company's overall financial affairs shall be personally liable for the employees' tax, Value-Added Tax, additional tax, understatement penalty, penalty or interest for which the company is liable, that is, where the taxes have not been paid to SARS within the prescribed period.</li> <li>• Any dividend declared by the company is exempt from income tax in the hands of the holder of the share (beneficial owner), but the dividend is subject to Dividends Tax in the hands of the holder of the share who is liable for dividends tax.</li> </ul>

Type of business	Description	Tax responsibilities
Close Corporation (CC)	<ul style="list-style-type: none"> <li>• A CC is similar to a private company.</li> <li>• It is a legal entity and must register as a taxpayer in its own right.</li> <li>• The owners of a CC are the members of the CC. Members have a membership interest in the CC. There are no shareholders in a CC.</li> <li>• Members' interest in the CC is expressed as a percentage.</li> <li>• Membership, generally speaking, is restricted to natural persons or (from 11 January 2006) a trustee of an inter vivos trust or testamentary trust.</li> <li>• The minimum number of members is one and the maximum number of members is 10.</li> <li>• As from 1 May 2011 (implementation date of the Companies Act No. 71 of 2008), no new Close Corporation can be registered or any conversion from a company to a close corporation allowed.</li> </ul>	<ul style="list-style-type: none"> <li>• For income tax purposes, a CC is dealt with as if it is a company.</li> <li>• Every member and person who performs functions similar to a director of a company and/or who controls or is regularly involved in the management of the CC's overall financial affairs, will be personally liable for employees' tax, Value-Added Tax, additional tax, penalties or interest for which the CC is liable.</li> <li>• The remuneration of members of a CC is subject to employees' tax.</li> <li>• The Close Corporation is responsible for the payment of taxes. Any dividend declared by the close corporation is exempt from income tax in the hands of the member (beneficial owner), but the dividend is subject to Dividends Tax in the hands of the member who is liable for Dividends Tax.</li> </ul>
Co-operative	<ul style="list-style-type: none"> <li>• Any association of persons registered under section 27 of the Co-operatives Act 91 of 1981 or section 7 of the Co-operatives Act 14 of 2005.</li> </ul>	<ul style="list-style-type: none"> <li>• For Income Tax purposes, a co-operative is also dealt with as if it is a company.</li> </ul>

Type of business	Description	Tax responsibilities
Small Business Corporation (SBC)	<ul style="list-style-type: none"> <li>• This tax incentive is available to private companies, Close Corporations and co-operatives.</li> <li>• If you meet all the requirement, you will qualify as an SBC (this is a yearly qualification / verification): <ul style="list-style-type: none"> <li>o All the holders of share in the company or members of the close corporation or co-operative must at all times during a tax year be natural persons.</li> <li>o No holders of shares or members should hold any shares or have any interest in the equity of any other company, other than companies as specified in the definition of “Small Business Corporation” in section 12E(4) of the Income Tax Act.</li> <li>o The gross income of the entity for the year of assessment may not exceed R20 million.</li> <li>o Not more than 20% of the total of all receipts and accruals (other than those of a capital nature) and all the capital gains of the entity may consist collectively of “investment income” as defined in section 12E(4) and income from rendering a “personal service” as defined in section 12E(4); and</li> <li>o The entity may not be a “personal service provider” as defined in the Fourth Schedule to the Income Tax Act.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• SBCs are not taxed at the same rate that normal corporates are taxed.</li> <li>• They are taxed at progressive tax rates based on various income bands.</li> <li>• A business that qualifies as SBC pays no Income Tax on the first R73 650 taxable income (for financial years ending on any date between 1 April 2015 and 31 March 2016).</li> <li>• The immediate write-off of all plant or machinery brought into use for the first time by the entity for purpose of its trade (other than mining or farming) and used by the entity directly in a process of manufacture or similar process in the year of assessment is allowed.</li> <li>• The entity can elect under section 12E(1A) to claim depreciation on its depreciable assets (other than manufacturing assets) acquired on or after 1 April 2005.</li> </ul>

## Registration

As soon as a person commences a business, whether as a sole proprietor or a partner in a partnership, the taxpayer is required to register with their local SARS branch office to obtain an Income Tax Reference Number. The taxpayer must register within 21 business days after he or she has commenced business operations by completing an "Application for Registration as a Taxpayer" form (IT77), which can be obtained from the local SARS branch or from the SARS website [www.sars.gov.za](http://www.sars.gov.za)

A company must register with the Companies and Intellectual Property Commission (CIPC). For registration procedures see [www.cipc.co.za](http://www.cipc.co.za). The company will then be registered automatically with SARS as a taxpayer and be issued with an Income Tax Reference Number. A company which does not hear from SARS after registering with the CIPC must contact its local SARS branch office as soon as possible.

Depending on other factors such as turnover, payroll amounts, whether you are involved in imports and exports etc. a taxpayer could also be liable to register for other taxes, duties, levies and contributions such as VAT, PAYE, Customs, Excise, SDL and UIF.

## DISCLAIMER

The information contained in this leaflet is intended as guidance only and is not considered to be a legal reference, nor is it a binding ruling. The information does not take the place of legislation and readers who are in doubt regarding any aspect of the information displayed in the leaflet should refer to the relevant legislation, or seek a formal opinion from a suitably qualified individual.

For more information you may –

- Visit the SARS website [www.sars.gov.za](http://www.sars.gov.za);
- Visit your nearest SARS branch;
- Contact your registered tax practitioner;
- Contact the SARS National Contact Centre –
  - o If calling locally, on 0800 00 SARS (7277); or
  - o If calling from abroad, on +27 11 602 2093 (only between 8am and 4pm South African time).

