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Budget Snapshots

Benefits for Small Business Corporations

Audit / Tax / Advisory / Human Capital



Many entities may be able to be classified as a Small Business Corporation.

The benefits currently available are generous and make it extremely important for those who may qualify to ensure that they do all that is necessary to comply.

The definition of a “small business corporation” is set out in Budget Snapshots [Issue 2](#). The annual turnover (gross income) must not exceed R20 million to qualify. This is a substantial amount and many entities may be able to be classified as a small business corporation.

The amount of normal tax payable by a “small business corporation” in respect of years of assessment ending on or after 1 April 2022 is set out below. A normal company pays tax at the flat rate of 28%.

In a table form, the rates will be as follows –

Taxable Income 2023	Amounts of tax payable and percentages to be applied to excess over base amounts
Up to R91 250	0%
Exceeds R91 250 up to R365 000	7% of excess over R91 250
Exceeds R365 000 up to R550 000	R19 163 plus 21% of excess over R365 000
Exceeds R550 000	R58 013 plus 28% of excess over R550 000

In respect of the previous year, the rates were as follows -

Taxable Income 2022	Amounts of tax payable and percentages to be applied to excess over base amounts
Up to R87 300	0%
Exceeds R87 300 up to R365 000	7% of excess over R87 300
Exceeds R365 000 up to R550 000	R19 439 plus 21% of excess over R365 000
Exceeds R550 000	R58 289 plus 28% of excess over R550 000

Dividends tax still remains payable on dividends declared.

Example – 2023 tax year	Normal Company	Small Business Corporation
Total taxable income	550 000	550 000
<u>Less:</u> Tax thereon	154 000	58 013
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Balance available for dividend	396 000	491 987
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Dividends tax at 20%	R79 200	R98 397
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Total tax burden	R233 200	R156 410
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The cost of manufacturing assets acquired and brought into use for the first time may be written off in full in the first year. On all other assets, the standard write off/depreciation rates apply. In respect of assets acquired and brought into use, the depreciation rates on these other assets are 50% (first year); 30% (second year) and 20% (third year). If the cost of individual assets is less than R7 000, the full cost can be written off in the year of purchase.

All the above measures also apply to small companies and close corporations that offer a variety of services that were previously excluded such as accounting, engineering and information technology. To prevent abuse there must be a minimum of three employees, unrelated to the shareholders, who are employed on a full-time basis engaged in the core operations of the business.

The full list of service fields are: accounting, actuarial science, architecture, auctioneering, auditing, broadcasting, broking, commercial arts, consulting, draftmanship, education, engineering, entertainment, health, information technology, journalism, law, management, performing arts, real estate, research, secretarial services, sport, surveying, translation, valuation or veterinary science.

Taxpayers over the age of 55 receive a lifetime cumulative CGT exclusion for the first R1.8 million of Capital Gains realised on the disposal of small business assets (subject to certain conditions). This concession is not limited to small business corporations as defined.

Small businesses can elect to pay VAT on the cash/payments basis if their turnover is less than R2,5 million per annum. Consult us for further details. If a shareholder owns multiple

companies, the small business relief (or micro business relief) will not be applicable. This creates a problem for business owners who place their business in a purchased shelf company which already has non-qualifying shareholders. Relief is granted by excluding the prior ownership of a purchased shelf company or an inactive dormant company in the process of liquidation or deregistration.

All employers with an annual payroll of R500 000 or less (even if required to register for PAYE purposes) are exempt from the payment of Skills Development Levies. The levy is not payable by an employer during any month that there are reasonable grounds for believing that the total amount of remuneration paid or payable by that employer to all its employees during the following 12 month period will not exceed R500 000.



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