

As a **small business**
are you finding it difficult to
juggle your taxes?



 **SARS**
At Your Service

www.sars.gov.za

Introducing **Turnover Tax**

The all-in-one tax
that's simple and
saves you time
and money.



Turn over to a new tax!

Small businesses have the potential to grow the economy, generate jobs and reduce poverty. With this initiative in mind and in line with Government's commitment to reducing the administrative burden on small businesses and cultivating an environment for entrepreneurship, SARS has designed a new single tax system as a tool for small businesses to help streamline their tax obligations.

What is Turnover Tax?

Turnover Tax is a simplified tax system for small businesses with a turnover of up to R1 million. It is a tax based on the turnover of a business and is available to sole proprietors (individuals), partnerships, close corporations, companies and co-operatives. Turnover Tax is a substitute for VAT, Provisional Tax, Income Tax, Capital Gains Tax and Secondary Tax on Companies. So qualifying businesses pay a single tax instead of 5 other taxes!

It's elective – so you choose whether to participate!

How does Turnover Tax work?

Turnover Tax is calculated by simply applying a sliding tax rate (see table on next page) to the “taxable turnover” of your business. The “taxable turnover” consists of the turnover of the business for the year of assessment with a few specific inclusions and exclusions.

How does Turnover Tax save me time and money?

By replacing five other kinds of taxes, Turnover Tax significantly reduces the administrative costs of meeting your tax obligations. Here's an example: John owns a hair salon constituted as a CC and which is registered for VAT. Under the current tax system every two months John has to submit a VAT return to SARS and twice a year he submits IRP6 provisional returns for the CC (and possibly a third “top up” payment). Then once a year the CC completes an IT14 income tax return. That's at least 9 returns a year. If John's CC applies to join Turnover Tax, the CC will only submit 3 returns: two interim returns and a final turnover tax return for the year.



Turnover Tax
for Small Businesses



Will I pay less tax with the Turnover Tax system?

This will depend on the unique factors of the business including the profitability of the business and whether or not it is in a tax loss position in the current income tax system. But remember that the Turnover Tax system is primarily designed to reduce your administrative burden – so you need to factor in all the costs associated with meeting your current or future tax obligations. Like how many hours you spend completing and submitting VAT and income tax returns, and calculating the relatively involved income tax that is payable for provisional tax and final assessment purposes.

Use the following quick test to see if whether switching to the Turnover Tax will benefit you or not:

- Step 1:** In one column take your estimated turnover for the financial year for which you want to register for the Turnover Tax.
- Step 2:** Calculate the tax you will pay for the year using the rates in the Turnover Tax table below.

Turnover Tax Rates

Turnover	Marginal Rates (R)
R0 - R100,000	0%
R100,001 - R300,000	1% of each R1 above R100,000
R300,001 - R500,000	R2,000 + 3% above R300,000
R500,001 - R750,000	R8,000 + 5% above R500,000
R750,001 and above	R20,500 + 7% above R750,000

- Step 3:** Add your estimated costs of completing three simple Turnover Tax returns each year (two interim returns and one final return)
- Step 4:** Now in another column write down the income tax, CGT, STC, your business paid for the last financial year (or estimate for the coming financial year)
- Step 5:** Add all the costs associated with the completion and submission of your two or three provisional income tax returns, the final income tax return, STC returns, and quarterly or bi-monthly VAT returns and other tax obligations.
- Step 6:** Now simply compare the costs in column A and B

What are the benefits of Turnover Tax?

- **It's simple:** There are no complicated calculations. Your tax liability is simply calculated on your taxable turnover.
- **It's quick:** There is no intensive record-keeping required and you only need to submit two interim returns a year (every six months) and a third final return. An interim return will not be required if the business is not liable for an interim payment.
- **It can save you tax:** Businesses with low turnovers and high profit margins can reduce their tax liability with Turnover Tax.
- **It can save you money:** If you are paying for accounting and tax services you should save money because the requirements are much less time-consuming for Turnover Tax than for VAT, Income Tax, Provisional Tax, CGT and STC.

Who qualifies for the Turnover Tax?

There are some exclusions and disqualifications for the Turnover Tax. Take this quick test to see if the business qualifies. If your answers are the same as these printed below then the business should qualify for the turnover tax.

1. Is the current or expected total turnover of the business less than or equal to R1 million per annum? **Yes**
2. Does the business render a "professional service"?
No
4. Is the business a "personal service provider" or a "labour broker" without a SARS exemption certificate? **No**
5. Does the business trade in one of the following forms: sole proprietor, partnership, close corporation, company or cooperative? **Yes**
6. If the business is a partnership, are you a partner in another business partnership? **No**
7. If the business is a partnership, are all the partners "natural persons" (i.e individuals rather than other businesses or organisations)? **Yes**
8. If the business is a close corporation, company or co-operative, are all of the shareholders/members "natural persons" (i.e. individuals rather than other businesses or organisations)? **Yes**

9. Is the business a public benefit organisation or a recreational club? **No**
10. Does the financial year of the business end on the last day of February each year? **Yes**
11. Does any member/shareholder in the business hold interests/shares in another close corporation, cooperative, or company (see exceptions in next section). **No**
12. Does or will the investment income of the business exceed 10% of the total income of the business? **No**
13. Will the income from the disposal of assets by the business over the year of assessment for which it wants to register and the past two years of assessment exceed R1.5 million in total? **No**

How will Turnover Tax work?

Turnover Tax will be levied annually on a year of assessment that runs from the beginning of March to the last day of February of the following year. The Turnover Tax system will also contain similar but simpler elements of the provisional tax system. Registered small businesses will need to submit two interim returns and payments (if necessary) and a final return.

How long can you join the Turnover Tax system for?

A small business that chooses to join the Turnover Tax system must remain in the system for at least three years unless it is specifically disqualified (for example if the turnover exceeds R1 million during this period).

Equally, a small business that exits the Turnover Tax system will not be allowed to re-register for a period of three years. This is to stop businesses from chopping and changing between the tax systems because of the administrative burden of registration and de-registration for the various taxes each time and the potential to abuse the systems to pay less tax.



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Which businesses may not join the Turnover Tax system?

Limit on interests in other companies

A business is disqualified if that business and any shareholder in that business hold interests or shares in another close corporation, cooperative or company.

Limit on investment income

A business is disqualified if more than 10% of total income of the business consists of investment income. This includes income in the form of dividends, royalties, rental income, annuities, interest or proceeds derived from investment or trading in financial instruments, marketable securities or immovable property.

Personal service providers and Labour Brokers

A "Personal Service Provider" is generally a company or trust that has its services rendered to clients by a connected person (usually the owner, relative, or beneficiary). A "Labour Broker" is any individual who, for reward, provides a client with other persons to render a service and pays the other persons for rendering the service.

Professional services

A professional service is a service in the field of accounting, actuarial science, architecture, auctioneering, auditing, broadcasting, broking, commercial arts, consulting, draftsmanship, education, engineering, entertainment, health, information technology, journalism, law, management, performing arts, real estate, research, secretarial services, sport, surveying, translation, valuation or veterinary science

Only "natural persons" permitted

A partnership, co-operative, close corporation or company will be disqualified if all the partners, members or shareholders are not "natural persons" (i.e. individuals rather than businesses or organisations).

How do I apply to join the Turnover Tax system?

Existing small businesses that want to be registered for Turnover Tax for the 2009/10 year of assessment, must apply to join before 30 April 2009.

New businesses must apply within two months from the date of commencement of business activities.

You apply by completing a Turnover Tax (TT01) application form which is available at any SARS branch or you can download it from the SARS website at www.sars.gov.za



Turnover Tax information

Should you wish to apply for Turnover Tax or you want to find out more about Turnover Tax you can:

- Visit your nearest SARS branch
- Contact the SARS Call Centre on 0800 00 SARS (7277)
- Visit the SARS website at www.sars.gov.za
- Contact your own tax advisor/practitioner
- Attend a free Turnover Tax workshop taking place around the country. See press or our website for details or call 0800 00 SARS to find out more or call 0800 00 SARS to find out more