Budget 2015: Read the fine print

Although Budget 2015 has delivered some good news for small business, the South African Institute for Professional Accountants (SAIPA) says it's not all good news, particularly for those who run their own consultancies. And, according to SAIPA tax expert Ettiene Retief, there's some bad news hiding in the annexures for companies that do business abroad.

Small business tax break doesn't benefit all small businesses

Finance Minister Nhlanhla Nene's announcement that small businesses with a turnover of less than R1m a year will benefit from a more generous tax regime is a little misleading, according to Retief. Nene said that those with a qualifying turnover of less than R335,000 a year will pay no tax and the maximum rate will be reduced from 6% to 3%.

However, according to Retief, this does not apply to small businesses that provide services as their core business, for example, accountants, engineers, graphic designers etc. "For several years now, we have seen no tax breaks for small business owners who provide personal services, despite calls for incentives to be extended to them," says Retief.

Finance Minister Nene delivering his 2015 Budget Review yesterday in Parliament. Good news for some, but as always, the devil's in the detail. (Image: GCIS)

The personal services sector has seen rapid growth worldwide, providing an enormous boost to economies that encourage those with special skills to start their own businesses.

"South Africa's economy could benefit enormously if it were to extend the current small business tax relief and incentives to personal and professional services which have low start-up costs and provide the additional benefit of imparting much-needed skills to employees as they grow organically," he says.

Bad news for cross-border traders or consultants

Buried in the Budget 2015 annexures is a proposal to scrap a tax provision that provides a much-needed tax break to companies who do cross-border trade or consulting. "Without Section 6quin, whose end seems imminent, there will be a serious impact on such companies and we could see a decline in international business as a result," says Retief.

The section in question is of benefit to companies that trade with or consult for foreign companies when tax is withheld from their payment in the foreign countries.

"How it works is, if you're a consultant working in South Africa on a report that's delivered to another country, and the other country's tax laws require a portion of your invoice to be withheld for tax. The source is regarded as South Africa. As you are taxed on your worldwide income, you'll be taxed again on the invoiced amount, even though you've received less than the amount you invoiced from the client, due to the withholding tax. Section 6quin allows one to claim a tax credit, but without it, the company will almost certainly not be able to gain any relief as being taxed in another country on South African source income is not considered a tax-deductible item in South Africa.

"This is a worrying development as we believe that South Africa must do all it can to protect and encourage international trade and business. In this light, Section 6quin is a necessity."

Decrease in the 'deemed amount' to impact drivers

Bad news for drivers is that the general fuel levy will be rising by 30.5c/litre, together with a 50c/litre increase in the Road Accident Fund levy, bringing the total fuel levy increases to 80.5c/litre. "On top of this, it seems very likely that the coming months will see an increase in the fuel price for economic reasons," adds Retief.

In this light, the decrease in the 'deemed amount' to R3.15/km will have an impact on individuals who use their vehicles for business purposes. "It seems strange that this amount is being reduced, particularly since other costs relating to vehicle usage, such as depreciation, insurance and maintenance, are constantly increasing."

VAT increase not off the table yet

Although no increase in the VAT rate was announced in Budget 2015, with economic growth expected to be sluggish in the coming years, Retief says an increase in the near future is highly likely.

"With South Africa already borrowing more money than it had expected it would, together with the fact that government is unlikely to be able to reduce its budget, an increase in the VAT rate is to be expected given its efficiency in increasing fiscal income," he says.

"However, as SAIPA, we recommend that government consider extending zero-rating and exemption provisions to include more food items and things such as school uniforms and text books, in order to reduce the impact on the general consumer."

Retief concludes: "As with this and the other areas of concern highlighted by Budget 2015, we hope to see thorough consultation with business in order for provisions to be introduced that could stimulate economic growth and address the high level of unemployment."