

Tax talk

10 tax savings tips for small businesses

Published on Thursday, September 19, 2013 3:34:00 PM

"The only thing that hurts more than having to pay income tax is not having to pay income tax." -

"The only thing that hurts more than having to pay income tax is not having to pay income tax." - Lord Duwar... because it means your business is not profitable!

Tax is often just a 3 letter word for many small business owners because, more notably, business owners are often caught unawares by the tax liability they need to pay, as they and their business largely work in the dark.

Do not use your accountant partially because you think you are saving money, but use your accountant to their full ability and ask for management accounts monthly – financial reports that measure your business' performance.

A good accountant will reflect a tax provision based on your year to date taxable net profit, less any assessed losses from the prior year, and provide for it monthly in the management accounts, enabling you to provide the cash for the tax liability – no more surprises!

Tax is often confusing to small business owners because of the complex nature of the law itself. Some of the apparent complexities have arisen due to many tax anti-avoidance measures being incorporated into the Income Tax Act over the years. Quite frankly, these anti-avoidance measures have actually simplified the interpretation of the law, rather than obscuring it, and by so doing have plugged up loopholes, creating a fair and equitable basis on which tax revenue is earned.

Recognising the necessity to grow the economy through its micro and small businesses, many of the amendments to the Income Tax Act has enhanced tax saving opportunities for small businesses.

Let's take a look at some of the tax saving benefits there are for small business:

1. Get your structure right

The way that a company or close corporation is set up has significant implications for the amount of tax payable. Whilst many small businesses still trade as sole traders or partnerships, the majority would actually pay less tax if they converted to a company.

The key is to structure the company or close corporation so that it can take full advantage of the tax saving benefits of a "Small Business Corporation". As a guideline, any business with:

FinSolve Accounting and Tax Solutions

Registered Accountants and Tax Practitioners



Office 308, 3rd Floor
Eikestad Mall
43 Andringa Street
Stellenbosch, 7599
Tel: 086 148 8883
Fax: 086 614 7319

- (a) an annual turnover not exceeding R 20-million, and
- (b) not more than 20% of its revenue is derived from investment income or “personal services”, and,
- (c) whose shareholders or members are all natural persons, and
- (d) those members or shareholders do not own shares (other than listed shares) or members interest in any other company or close corporation

would justify a consideration of a Small Business Corporation.

2. Don't leave money on the table

Out-of-pocket expenses landed as the number one overlooked deduction that accountants have observed, followed by motor expenses. So save those receipts for coffee shop, lunch, parking and cell phone pay-as-you-go airtime and write-off that iPhone 5 and iPad – it will all add up in the end.

3. Travel allowance or use of company car?

Which is more tax efficient? If your company purchases a vehicle and it is used for both business and private travel, you will be taxed on the fringe benefit value for the private use. If you buy the car personally, you could consider incorporating a travel allowance into the salary your business pays you which would be taxed at 20%, provided that at least 80% of your vehicle travel is business related. There is always some risk buying a vehicle in your company in that it could be attached if your company suffers any unfortunate trading conditions.

In most cases, a travel allowance wins, but it is entirely dependent on the “determined value” of the vehicle, the total kilometres driven over a financial year and the business travel related to those kilometres. It requires you to keep a log book as no deductions are allowed without one.

Only your accountant or tax practitioner will be able to do the calculations to determine which option will save you more tax, based on the various factors relevant to your specific circumstances.

4. The expensive 4x4 or the moderate family car?

Some business owners are under the impression that more tax can be saved by spending more on that “dream car” than on a more conservative vehicle purchase.

Incorrect. If your business pays you a travel allowance, and your expenditure claim is based on actual business travel, the total payments for the lease on your vehicle may not exceed R119,683.

Where the vehicle is not leased, your vehicle's wear and tear claim must be calculated over 7 years (instead of the usual 5 years) and the depreciation is limited to a vehicle cost (including VAT) of R480,000.

FinSolve Accounting and Tax Solutions

Registered Accountants and Tax Practitioners



Office 308, 3rd Floor
Eikestad Mall
43 Andringa Street
Stellenbosch, 7599
Tel: 086 148 8883
Fax: 086 614 7319

5. Dividend or bonus?

Whether remuneration paid to the business owner falls within the 25% or 40% tax bracket, paying a “production bonus” wins over distributing a dividend. However, if your business qualifies as a “small business corporation” in terms of the income tax act, you will receive even greater tax savings if you distribute a dividend as opposed to paying a bonus. Ask your certified tax practitioner or accountant to do the calculations for you.

6. Untaken employee leave

Your employee contracts should, at the minimum, comply with the Basic Conditions of Employment Act. As annual leave can be taken up to 6 months after the annual leave cycle, ensure that your business claims a deduction for outstanding leave pay at the end of the financial year.

7. Charge your business interest

Healthy businesses should owe money to its business owner (what we refer to as a “credit loan account”). You can write off interest as a business expense on your company tax return to get a bigger tax deduction. However, the interest your business pays you is income in your personal capacity, but the first R23,800 is tax free!

8. Let your business pay you commission

As the business owner, your members or directors salary can be structured in a way to incorporate commission as opposed to a salary. No expenses are deductible against a salary, other than retirement annuity contributions, but expenses are deductible against commission income.

9. Turn to household bills for potential tax deductions

If you work from home and have an office that is a dedicated work space for your business, you can write off part of your rent, insurance costs, and utility bills on your business return to get more tax deductions. Also, don't forget to write off a portion of your Internet and landline bills if you use them for business purposes.

But beware, if you own your home, do not write off a portion of your interest on your bond or rates, as you will lose your primary residence capital gains exemption of R2-million! When you sell your property one day, this would equate to an additional tax payment of up to R266,000 should you have claimed business expenses against your primary residence.

10. Micro Businesses – Turnover tax, can you really save?

A micro business must have an annual turnover of under R1-million and can trade in either a company or as a sole proprietor to qualify. The upside of turnover tax for individuals is that most of the “red tape” of bookkeeping and accounting requirements are done away with. This does not apply to Close

FinSolve Accounting and Tax Solutions

Registered Accountants and Tax Practitioners



Office 308, 3rd Floor
Eikestad Mall
43 Andringa Street
Stellenbosch, 7599
Tel: 086 148 8883
Fax: 086 614 7319

Corporations or Companies however, as their record keeping requirements are legislated. Sole proprietors benefit more from turnover tax than close corporations or companies.

Nevertheless, depending on the net taxable profit of the entity, turnover tax does not benefit micro business owners as much as we would have liked it to. Ask your accountant to do the calculations to establish whether there are tax savings to be had.

If you are unsure about anything related to your tax obligations under the law, you should seek professional help from a certified accountant or tax practitioner. Meeting with your accountant quarterly as opposed to only once a year to go over your specific situation will allow him or her to best advise you on what to do to keep your tax bill, and the stress over it, as low as legally possible.