



Ministry of Finance

REPUBLIC OF SOUTH AFRICA

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Briefing note on Small Business Tax Amnesty

Original Proposal

In the 2006 Budget Speech Minister Trevor Manuel announced that the South African Revenue Service would offer a tax amnesty to small businesses with a turnover not exceeding R5 million, who had not been compliant with the tax system. One to the aims of the amnesty is to afford those who have been historically marginalised an opportunity to regularise their tax status. Taxes and penalties were to be waived for years of assessment ending on or before 31 March 2004, subject to a non-disclosure penalty of 10 per cent based on taxable income for 2005. The first phase of the amnesty was to take effect between August 2006 and May 2007, with a focus on the taxi industry. A second phase would extend the amnesty to other small businesses later in the year.

Consultation

On this basis we drafted a set of proposals which we took through an intensive process including meetings with the Portfolio Committee on Finance (PCOF) and a series of Izimbizo in East London, Durban, Cape Town and Polokwane.

In East London

Approximately 700 small business operators drawn from the manufacturing sector, traders and more significantly from the taxi and construction industries participated.

Running parallel to the Izimbizo was a tax clinic in which approximately 50 SARS consultants were on hand to provide personal and individualised attention to queries.

In KwaZulu Natal

In Durban, SARS hosted a dinner meeting with local stakeholders. Invited guests included representatives of the small business associations, organisations that represent the interests of small business and professional bodies and

government structures directly involved with small businesses in the province. More than 70 representatives of various local business associations attended the meeting.

In Cape Town

In Cape Town, the campaign had two legs: a dinner with 15 representatives, most prominently the taxi association.

About 220 people attended the Imbizo itself. Organised groups including the South African Institute of Chartered Accountants, BUSA, SACOB, NAFCOC, Khayelitsha Business Forum, Certified Institute for Secretaries and the Institute for Administration and Commerce were well represented.

In Limpopo (workshop)

212 people attended the stakeholder workshop including small shop owners and taxi owners.

We have taken note of the views expressed by the stakeholders. We remain intent on ensuring we can provide an amnesty and maintain the integrity of tax law.

In any amnesty process people will ask for the unachievable and while we have taken note of their concerns it remains our goal to:

- Broaden the tax base
- Normalise tax affairs of small businesses
- To create culture of tax compliance and
- To facilitate participation in the Taxi Recapitalisation Process

Revised Proposal

Following broad consultations, several key amendments to the original proposals have been made. These include:

- A single approach to all small businesses has now been adopted
- We have increased the R5 million limit to businesses with a business turnover of up to R10 million (Clause 2)
- The 10% levy based on taxable income for 2005 has now been reduced to a graduated levy not exceeding 5% on taxable income for 2006 (Clause 6)

One of the issues that still presents us with a challenge is penalties and interest for businesses with a turnover of R10 million who have fallen in arrears. This is a matter we will give due consideration to.

We urge small businesses to come forward in the spirit of the amnesty on offer. We want to assure everyone that once the door closes there will be vigorous enforcement of the law for businesses who do not comply.