

Small businesses heave a sigh of relief

Finance Minister Tito Mboweni's Budget Speech for the 2020/1 tax year offered small and medium businesses reason to feel both relief about a lack of growth-dampening tax increases for the next tax year as well as cautious optimism about the prospects for economic recovery over the next two years, says Pieter Bensch, executive vice president for Africa & Middle East at Sage.



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“Many commentators said that Minister Mboweni would be walking a tightrope in this year’s Budget Speech, but if he was feeling a sense of vertigo, he didn’t show it,” says Bensch. “In a year where we were braced for increases in VAT and personal income tax, Minister Mboweni decided to surprise the markets by not increasing either.

“In fact, even people in the higher income tax brackets will experience some tax relief this year. It is good news for small businesses, who would have taken much of the pain if VAT and personal tax increases had reduced consumer confidence and spending. In this uncertain economic climate, small business owners will be grateful for the relief.”

Widening corporate tax

Bensch says he welcomes Minister Mboweni's commitment to finding ways to broaden the corporate tax base and simplify tax regulation, to use the extra revenue raised through these means to reduce corporate income tax in future years. "The Minister is correct that our corporate tax rate is high compared to many emerging and developed market peers," says Bensch.

“ Reducing corporate income tax could help to encourage small businesses to increase investment; it could also put more profit in the pockets of small business owners who are struggling to make ends meet. We are looking forward to seeing more flesh on the bones of this proposal – perhaps in the Medium-Term Budget Policy Statement later this year. ”

Vague but promising proposals

Bensch says that Minister Mboweni's commitment to reviewing the preferential small business tax regime, the VAT registration threshold and the turnover tax is welcome. The R1 million VAT registration threshold, for example, has not been altered for years — raising it could relieve many small business owners of an admin headache and free their time to focus on growing their businesses instead.

"As Minister Mboweni says, startups will ignite the economy. Some of his proposals for helping startups to grow are vague, but they reflect sound thinking," Bensch adds. "An obvious omission from his speech was the challenge many small businesses face in getting prompt payment from government. Many still wait more than 100 days for payment, rather than the 30 days government is targeting."

Sage will be interested to learn more about how the R6.5bn allocated for small business incentive programmes (R2.2bn of which will be transferred to the Small Enterprise Development Agency) will be used to support small businesses, he adds.

"Many small companies suffered as a result of load shedding and slow economic growth," Bensch says. "So, the focus shouldn't only be on incentives for startups, but also on helping existing businesses to weather the storm."

"As a technology company, we are intensely awaiting more information about the establishment of the IT and ICT infrastructure companies, through the merger of the different functions of the State IT Agency (SITA), Sentech and Broadband Infraco. The multi-million rand investment required to achieve greater ICT efficiency, and ensure that communities and individuals have access to ICT services and skills for the digital economy requires urgent action plans with achievable targets and deadlines. Alternatively, the budget should be reallocated to the urgent upgrade and maintenance of traditional infrastructure."

Bensch concludes: "We are pleased government plans to loosen regulations to turbo-charge the fintech sector and that spectrum licensing is high on the agenda. Along with the stable electricity supply, the Minister alluded to in his speech; mobile broadband is a key enabler for the fourth industrial revolution and the sustainable recovery of the economy. Finalisation of this issue is long overdue."