higher education & training
Department: Higher Education and Training
REPUBLIC OF SOUTH AFRICA

Tshwane South TVET College
"achieve the future"

SUBJECT: Financial Management

LEVEL: 4

Date: 29/07/2020

MODULE NAME: Calculate tax payable by a small business.

Date: 29/07/2020

After completing this topic, you will be able to:

- Distinguish between the main business expenses that are not allowable for income tax purposes and those that are allowable.
- Understand and calculate capital allowances
- Calculate the figures required for the completion of an income tax return..
- Calculate the tax payable by an individual whom is a Sole Trader.
- Apply the concept of limited liability and incorporation.

TOPIC 5

Introduction

The tax collected by SARS is calculated based on the rules and guidelines set out in the Income Tax Act of 1962.

Glossary

Capital Gains Tax: The tax payable on the disposal of Capital goods.

Income Tax: The tax payable on taxable income made during a period of time.

Income Tax Act of 1962: Act that governs income tax payable by individuals and businesses.

Individual tax rebate: A tax free allowance given to individual taxpayers. This allowance is currently:

Tax Rebates

Tax Rebate				Tax Year			
	2021	2020	2019	2018	2017	2016	2015
Primary	R14 958	R14 220	R14 067	R13 635	R13 500	R13 257	R12 726
Secondary (65 and older)	R8 199	R7 794	R7 713	R7 479	R7 407	R7 407	R7 110
Tertiary (75 and older)	R2 736	R2 601	R2 574	R2 493	R2 466	R2 466	R2 367

- **SARS**: South African Revenue Services
- **Small Business Tax:** Rate of tax payable by Companies and Close Corporations with a turnover of less than R1 million, on taxable income for the year of assessment. Small business tax is currently payable at the following rates:

Small Business Corporations (SBC)

Financial years ending on any date between 1 April 2020 and 31 March 2021:

Taxable Income (R)	Rate of Tax (R)
1 – 83 100	0% of taxable income
83 101 – 365 000	7% of taxable income above 83 100
365 001 – 550 000	19 733 + 21% of taxable income above 365 000
550 001 and above	58 583 + 28% of the amount above 550 000

- **<u>Tax rate for companies:</u>** The rate of tax for companies is currently 28%, payable by companies and close corporations with a turnover above 1 million on a taxable income for the year of assessment.
- **<u>Tax tables:</u>** Current tax table:

2021 tax year (1 March 2020 - 28 February 2021)

Taxable income (R)	Rates of tax (R)
1 – 205 900	18% of taxable income
205 901 – 321 600	37 062 + 26% of taxable income above 205 900
321 601 – 445 100	67 144 + 31% of taxable income above 321 600
445 101 – 584 200	105 429 + 36% of taxable income above 445 100
584 201 – 744 800	155 505 + 39% of taxable income above 584 200
744 801 – 1 577 300	218 139 + 41% of taxable income above 744 800
1 577 301 and above	559 464 + 45% of taxable income above 1 577 300

UNIT 1: Distinguish between the main business expenses that are allowable and not allowable for income purposes

After completing this topic, you will be able to:

- Explain the concept of tax rebates and expenses that are tax deductible, using examples.
- Identify and list expenditures that are tax deductible and not tax deductible for use on tax return form for sole trader.

What is Income

- The Income Tax Act of 1962 defines Gross Income as:
- Total Income received by a resident,
- As cash and cash equivalent and
- Has been physically received or is due to be received.
- For a Company that is not resident or based in South Africa, income is taxed only when it arises from activities in South Africa.

Income received by a resident

- All monies received irrespective of where it comes from is considered to be a taxable income in the resident's hands.
- The income received from sales in a foreign country by a South African Company, will be taxed in South Africa.

Cash or Cash equivalent income

- Cash or cash equivalent means any transaction that can be measured in value is included in the definition of income. An example of cash equivalent is a Treasury Bills, Government Bonds, Money Market funds, Kruger Rand or Mandela Coin, as they are worth a lot of money.
- But if the value of a provision made from income to be received in the future is uncertain, that value is not considered to comply with the definition of cash equivalent and not treated as taxable income.

Physical and due receipt

- This refers to the money owed to the business, which is not yet received is considered income.
- If goods are sold on credit, the income is recognised as soon as the transaction to extend credit is finalised.

Residence and non-residence

- Residence= South African business= domestic source, taxable in South Africa.
- Non-residence= International business= Foreign source, not taxable in South Africa.
- Go through the Case Study on pg 244-245.