

**EVALUATION OF INCOME TAX CONCESSIONS
AVAILABLE TO SMALL BUSINESSES IN
BLOEMFONTEIN**

by

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DECLARATION

I, Namhla Ntia, student number 2009060258 declare that the field study which I hand in for the qualification, Master's in Business Administration at the Business School of the University of the Free State is my own independent work, and that I have not previously submitted the same work, either as a whole or in part, for a qualification at/in another university/faculty. I further declare that I have acknowledged all sources consulted as in-text citations and in the reference list.

Signed

Date

ABSTRACT

Their seed shall be known among the nations, and their offspring among the peoples; all who see them shall acknowledge them, that they are the seed which the LORD has blessed (Isaiah 61:9; KJV)

As the scripture announces, Small and Medium Enterprises (SMEs) are like seeds that can never be dismissed since their operations have contributed significantly to the global economy, and thus all those who see them must acknowledge their contribution. Despite making a major economic contribution, SMEs nonetheless experience several difficulties. One of the difficulties concerns tax regulations which stifle the smooth flow of the functions of SMEs. Considering that small businesses are acknowledged as the backbone of the country's economic growth, the Government was urged to provide support for them. As a result, Section 12E of the ITA was introduced. Despite the fact that businesses save money through these tax concessions, there have been apprehensions that these ITA Sections are ineffective because of their complex legislation and onerous criteria. Consequently, the aim of this research was to evaluate income tax concessions stipulated in Section 12E of the ITA, specifically regarding small businesses in Bloemfontein. In order to obtain a comprehensive understanding of the income tax concessions offered to small businesses in Bloemfontein, interviews were performed as a qualitative approach of data collection. Ten participants with small business clientele who had an understanding of Section 12E were interviewed by utilising an interview schedule with open-ended questions. Findings revealed that the concessions provided in Section 12E were valuable to small businesses; however, due to a number of reasons, a sizable proportion of small businesses did not qualify for concessions as stipulated by Section 12E. It was recommended that the Government should promote the understanding and utilisation of Section 12E. Changes to the legislation were also proposed.

Keywords: Income Tax Act, personal services, Section 12E, shareholding, small business, small business corporation, tax concessions

ACRONYMS/ABBREVIATIONS

CBE	Central Bank of Egypt
EGP	Egyptian Pound
EUR	Euro
GDP	Gross Domestic Product
GHREC	General Human Research Committee
HOD	Head of Department
IFC	International Finance Corporation
IRBA	Independent Regulatory Board for Auditors
ITA	Income Tax Act
NDP	National Development Plan
OECD	Organisation for Economic Co-operation and Development
SAICA	South African Institute of Chartered Accountants
SAIPA	South African Institute of Professional Accountants
SARS	South African Revenue Services
SBC	Small Business Corporations
SME	Small and Medium Enterprises
TAA	Tax Administration Act
USA	United States of America
VAT	Value Added Tax

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“I knew you before I formed you in your mother’s womb. Before you were born, I set you apart” [Jeremiah 1:5. NKJ].

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CHAPTER 1 INTRODUCTION

1.1 BACKGROUND

Small and medium enterprises (SMEs) are widely acknowledged as being critical to the success of most African and global economies. According to Chazireni (2019:56), SMEs have long been recognised as power engines of economic growth and development in South Africa, and throughout the world. Small businesses have a key role to play in restoring historical injustices by boosting the engagement of black people in the mainstream economy, in addition to creating jobs (Chiloane-Tsoka, Makina & Matarirano, 2019:1). This gives black people, who were formerly marginalised, the opportunity to possess economic resources, thereby increasing their quality of life (Chiloane-Tsoka et al., 2019:1). This implies that it is possible that, despite the tiny size of any business in this sector, their value to the economy as a whole, both locally and worldwide, outweighs their size. It is therefore vital for the Government and other relevant stakeholders to provide assistance to small businesses in order to assure and promote its profitability and sustainability.

According to Ganbold (2008:2-3), proponents of SME-assistance rest their beliefs on the following:

- By assisting SMEs, the nation can reap the social dividends of increased competition and entrepreneurship; and
- Since financial markets restrict the expansion of SMEs, which are typically more productive than bigger companies, increasing SMEs' ability to access financial services can enhance economic development and expansion.

Even though small businesses are described to be the pinnacle of the economy due to their significant contribution to the development of the world, they face challenges. One of the numerous challenges is that small businesses have a lower chance than larger companies do of getting bank loans, thus they generally rely on internal funds generated by activities or monetary loans from relatives and friends, or internal monies generated through activities to launch and run their businesses (World Bank, 2020). The International Finance Corporation (IFC) estimates that the yearly unmet funding

requirement of 65 million businesses in developing nations is \$ 5 200 000 000 000, or 1.4 times the current position of international SME lending (World Bank, 2020). Regrettably, about half of small businesses fail during the first five years, and over 20% fail within the first year (Mohsin, 2022). In this regard, access to funding remains one of the most stifling barriers for the formation, survival, and growth of SMEs (OECD, 2009:3; Christensen, Hegazy & Van Zyl, 2016:15). Just to demonstrate the financial pressures that small businesses face in South Africa, businesses swiftly created the South African Future Trust to offer a first 1 billion rand (about \$55 000 000) to aid SMEs affected by the Covid-19 outbreak (SA Future Trust, 2020). The Trust received over 10,000 entries in the initial week following its opening on 3 April 2020, and it has teamed with the country's major banks to evaluate applications and make direct payment to SMEs. This loan was to lift the operational burden such as paying the salaries of employees of SMEs (Fine, Klier, Mahajan, Raabe, Schubert, Singh & Ungur, 2020).

The second challenge concerned the ITA regulatory stipulations which disadvantaged SMEs, specifically in the area of tax compliance - an overwhelming phenomenon across the world (Jabbar & Pope, 2008:4). As a result of SMEs' size and nature, tax compliance is a problem, particularly since most informal sectors have limited resources and insufficient knowledge to understand and comply with a wide range of complex tax regulations (OECD, 2005:21). Further, research shows high tax compliance expenses as a portion (%) of revenue, as there are often high fixed expenses involved with systems required to comply with the tax system's requirements (OECD, 2005:28).

However, the South African Revenue Services (SARS) cost-to-tax-revenue ratio is less than 1% which is the international average; and this ratio has fluctuated over the last five years, ranging from 0.96% in 2015/16 to 0.89% in 2017/18, before dropping to 0.8% in 2019/20 (RSA National Treasury & SARS, 2020:26). The decrease in the cost-to-tax-revenue ratio demonstrates that SARS has managed to keep its expenditure under control while collecting taxes (RSA National Treasury & SARS, 2020:26).

Understanding and dealing with SARS regulations is amongst the most difficult tasks for small businesses in South Africa (Menzie & Naicker, 2016:1). The Income Tax

Act No. 58 of 1962 (ITA) requires all South African citizens and businesses, even small businesses, to pay taxes and requires that citizens be held accountable for paying taxes while the Government is responsible for delivering the necessary goods and services in exchange (Koekemoer, Van Heerden, Wilcocks, Van der Zwan & Stiglingh, 2021:10).

Mastering taxation processes, completion and filing tax returns, recording transactions and compiling receipts, and paying employees in charge of handling tax administration, all require additional production time, effort and money. Chiloane-Tsoka et al. (2019:2) agree that small businesses are unable to accomplish SARS duties on their own and must pay external service-providers to assist. Spending time with tax authorities during inspections and audits is another expense relating to tax compliance (Chiloane-Tsoka et al., 2019:2). It is critical that tax specialists assist businesses in retaining their grip on the tax pulse by remaining knowledgeable about tax law by aiding clients in exploiting tax concessions in tax legislation and assisting clients in detecting and managing tax risks (Small, 2021:30). This means that the elements that influence tax compliance expenses centre on thoroughly understanding the tax system and tax legislation, which has knock-on effects on business development and size. Small businesses would minimise their tax payments and survive longer if their employees had the necessary skills and credentials for understanding the complexities of the taxation system and its processes regarding SMEs (Chiloane-Tsoka et al., 2019:8).

From the standpoint of the ITA, the Government has attempted to assist small businesses by enacting legislation such as Section 12E which is mainly applicable to small business corporations (SBCs). According to Section 12E of the ITA, a business must meet certain requirements before being classified as an SBC. One of these prerequisites is that the company must be a privately owned, co-operative, or registered close corporation with an annual gross revenue of little more than R20 million, and all shareholders or members must be natural persons and not other companies or entities (SARS, 2018:4). This SBC provision is a continuation of a previous special dispensation granted to small businesses by the South African government, that is still in force. Beginning in early April 2000, Section 12E was impacted, (Mkhize, 2011:11). The main tax concessions provided for in Section 12E

to qualified SBCs are reduced progressive tax rates as well as accelerated capital allowances on qualifying assets (Mkhize, 2011:5; SAIPA, 2022:18). According to Mkhize (2011:15), Section 12E was initiated to encourage the formation of new start-up businesses and the creation of new jobs.

1.2 PROBLEM STATEMENT

After Section 12E was implemented in 2001, concerns were raised since the Davis Tax Committee reported on the essentially ineffective tax system regarding SBCs (Davis Tax Committee, 2016:5). Section 12E concessions are only accessible to private companies that fulfil all of the specific conditions and requirements outlined in the ITA - these are frequently considered as unnecessarily complicated and onerous by the Davis Tax Committee (2014:19). According to SARS's figures on corporate tax payments for 2014, a total of 127 735 businesses with positive taxable revenue surpassing just over R5 billion were assessed for tax reasons, compared to only 42 912 businesses evaluated under SBC tax rates in the same tax bracket (RSA National Treasury & SARS, 2020:161). As a result, only 33,59% of potential SBCs are exploiting the preferential tax rates (RSA National Treasury & SARS, 2020:161). It has become apparent that small business owners do not receive simplified or reader-friendly information on tax compliance which limits them to contribute to economic development (Letlojane, 2021:25). Small businesses are so crucial to the economy but are hampered by financial constraints. Regrettably, as evident from the above statistics, relatively few small businesses leverage tax concessions designed to help them minimise their financial obligations - it is unclear why they are not taking advantage of the tax concessions. This study aimed to contribute to the body of knowledge through exploring reasons for small businesses in Bloemfontein not exploiting tax concessions available according to Section 12E of the ITA.

1.3 RESEARCH AIM AND OBJECTIVES

1.3.1 Aim

To evaluate the extent of the utilisation of tax concessions in accordance with Section 12E of the ITA by small businesses in Bloemfontein.

1.3.2 Objectives

- To identify challenges (and suggest solutions) that impede small businesses to take advantage of the tax concessions as stipulated in Section 12E of the ITA;
- To establish tax practitioners' views on appropriate tax concessions that would benefit most small businesses; and
- To recommend changes to the income tax legislation to promote the effective utilisation of tax concessions for small businesses.

1.4 LIMITATIONS OF THE STUDY

This research was conducted to encourage SMEs and stakeholders to adhere to the requirements of Section 12E of the ITA. Since the research findings of this study focused on tax practitioners who assist clients in Bloemfontein with income tax computations, the findings cannot be interpreted to apply to all tax practitioners and small businesses in the city. Due to time and budget constraints, the researcher was unable to contact all small businesses in Bloemfontein, resulting in the sample mainly including the city's accounting firms.

1.5 CHAPTER LAYOUT

Chapter 1: Introduction

This chapter included a general introduction, study background, problem statement, and the research aim and objectives.

Chapter 2: Literature review

The theoretical underpinning of the study was discussed in this chapter which included a review of the literature on findings from previous research and scholarly sources. The chapter included several ITA legislation sections, the importance of small businesses on a national and international scale, and various definitions of small businesses.

Chapter 3: Research methodology

This chapter provided the research methodology as well as the strategy for selecting the study sample. The data gathering instrument, data collection technique, and data analysis techniques were discussed in this chapter.

Chapter 4: Data analysis and interpretation

The study's findings and outcomes were presented in this chapter.

Chapter 5: Conclusion and recommendations

The conclusions and recommendations were outlined in this chapter.

1.6 CONCLUSION

This chapter gave a background on the subject at hand, explained the significance of small enterprises to the South African economy, and discussed the contributions and difficulties that SMEs face both at home and abroad. Considering the positive impact that small businesses have, the Government introduced tax concessions in order to ease the challenges that these businesses face. The study also provided information on concessions given by the South African Government to advantage SMEs, such as Section 12E of the ITA. Small business improvement methods that were in line with the problem statement and the importance of the study were proposed in an effort to lessen the difficulties faced by small businesses. Finally, the chapters' organisation and the study's limitations were described. The next chapter (2) presented the literature review.

CHAPTER 2 LITERATURE REVIEW

2.1 INTRODUCTION

This chapter defined small businesses from a national and global perspective, and then proceeded to examine existing literature on their importance in the South African economy. The challenges experienced by small businesses were also explored. The concept of a small business was dissected in line with South African income tax legislation. The tax concessions available to small businesses in South Africa were examined by focusing specifically on Section 12E. The requirements, shortcomings, and tax benefits available to small businesses in South Africa were discussed, and a practical example was provided to demonstrate the tax relief offered in terms of Section 12E. This literature study also included dissecting previous studies which dealt with issues influencing compliance to Section 12E of the ITA.

2.2 DEFINING A SMALL BUSINESS

In understanding the profound influence that small businesses have on the economy, it is important to clarify what precisely a small business is. There have been several attempts in South Africa to define a small business - the words 'small business', 'small business company', and 'SME' are commonly used interchangeably (Smulders & Oberholzer, 2006:7). The small business industry is defined differently depending on the culture and unique circumstances of the individual interpreting its functions (Fehntoluwa & Omolara, 2019:225).

Before exploring definitions referred to in various legislation in South Africa, it is essential to firstly also explore the definitions emanating from other countries in order to discover how they identify small businesses from other types of businesses. This provided insight into whether South Africa is similar/different to other countries in terms of how a small business is classified. According to Statista (2021), Nigeria's Gross Domestic Product (GDP) in 2021 was 441.5 billion US (United States) dollars, the largest in Africa; South Africa's GDP was 418 billion US dollars, ranking second on the continent, while the third largest economy was Egypt (Varrella, 2021). Considering

that Nigeria and Egypt were among the top three African countries that had the highest GDP in 2021, their SME definitions were essential to explore.

2.2.1 Global Definitions of Small Businesses

The SMEs are independent, self-sufficient businesses with lesser than a specific number of employees, however this amount varies by country (OECD, 2005:17). Microbusinesses can have up to ten employees, small businesses can have between 10 and 50 employees, and medium-sized businesses can have up to 250 employees, according to Wet (2019). According to the OECD (2005:17), microbusinesses normally have no more than 10, and in certain cases, no more than five employees, while small businesses often have fewer than 50 employees. The OECD (2021) aims to create better policies for better lives (Woodward, 2004: 2) as its objective is to promote everyone's success, equality, opportunities, and wellbeing. Woodward (2004:1) contends that amongst the world's most important organisations for international governance is the OECD which is 60 years in operation by providing much knowledge and insights that were useful in this study for defining small businesses.

Small businesses are defined by the European Union (EU) as medium-sized businesses with 50–249 employees and a revenue of up to EUR (Euro) 50 million, small businesses with 10–49 employees and a revenue of up to EUR 10 million, and micro-businesses with fewer than 10 employees and a revenue of up to EUR 2 million (OECD, 2005:17). The EU is a political and economic organisation that represents a unique form of collaboration amongst independent nations (Congressional Research Service, 2022:2). The majority of the nations in Central and Eastern Europe are among the EU's 27 current members (Congressional Research Service, 2022:2). The EU has promoted the negotiation of peace, stability, and economic development over the whole European continent (Congressional Research Service, 2022: 2). Due to the numerous member of states they have assisted, the EU was used in this study to understand tax compliance.

Businesses in Nigeria that have annual revenues of less than N100 million and/or fewer than 300 employees are considered SMEs (Oyelaran-Oyeyinka, 2020:3). The Central Bank of Egypt (CBE) classifies businesses with a revenue of between EGP

(Egyptian Pound)1 million and EGP50 million as small, and those with a revenue of between EGP 50 million and EGP200 million as medium-sized (El Wahab, 2017:4). Furthermore, small and medium enterprises are defined by the CBE as having between 10 and 200 employees (El Wahab, 2017:4).

2.2.2 Defining Small Businesses in South Africa

Section 20(2) of the South African National Small Business Act No. 102 of 1996 defines a small business as:

[A] small [business] enterprise means a separate and distinct business entity, together with its branches or subsidiaries, if any, including co-operative enterprises [and non-governmental organisations], managed by one owner or more [which, including its branches or subsidiaries, if any] predominantly carried on in any sector or subsector of the economy mentioned in column 1 of the Schedule and [which can be] classified as a micro-, a very small, a small or a medium enterprise by satisfying the criteria mentioned in columns 3, 4 and 5 of the Schedule [opposite the smallest relevant size or class as mentioned in column 2 of the Schedule].

A small business is further described in Section 1(e), Republic of South Africa, 1996:

- a small business employs 50 people, a very small business employs 20 people, and a micro-business employs 5 people;
- A medium-sized business' overall sales might range from R5 million in agriculture to R64 million in wholesale, commerce, commercial agents, and associated services; and
- Small businesses have a turnover of R3 million to R32 million, very small businesses have a turnover of R500 000 to R6 million, and micro-businesses have a revenue of less than R200.

Before the amendments in 2019, the National Small Business Act No. 102 of 1996 also referred to the gross asset value. It stated that the gross asset worth (excluding fixed property) of medium-sized enterprises ranges from R2 million to R18 million (RSA, 1996):

- small businesses from R1 million to R5 million,
- very tiny businesses from R500 000 to R2 million, and
- Micro-enterprises have a R100,000 gross asset value.

In 2019 the Minister of Small Business Development introduced amendments to the National Small Business Act No. 102 of 1996 to limit inflation as well as to remove the third proxy of gross asset worth since it was frequently unsuitable and difficult to quantify. The very tiny enterprise size or class category was merged with the micro-enterprise category (Department of Small Business Development, 2019:1). Table 1 below outlines perspectives on the amendment that was introduced by the Minister in the revised Schedule 1 of the National Small Business Act No 102 of 1996.

Table 1: National Small Business Act threshold using two proxies (National Small Business Act No. 102, RSA, 1996)

Sectors or subsectors	Size or class of enterprise	Total full time paid employees	Total annual turnover (Rm)
Agriculture	Medium	51 – 250	≤ 35
	Small	11 – 50	≤ 17
	Micro	0 – 10	≤ 7
Mining and quarrying	Medium	51 – 250	≤ 210
	Small	11 – 50	≤ 50
	Micro	0 – 10	≤ 15
Manufacturing	Medium	51 – 250	≤ 170
	Small	11 – 50	≤ 50
	Micro	0 – 10	≤ 10
Electricity, gas, and water	Medium	51 – 250	≤ 180
	Small	11 – 50	≤ 60
	Micro	0 – 10	≤ 10
Construction	Medium	51 – 250	≤ 170
	Small	11 – 50	≤ 75
	Micro	0 – 10	≤ 10
	Medium	51 – 250	≤ 80

Retail, motor trade, and repair services	Small	11 – 50	≤ 25
	Micro	0 – 10	≤ 7.5
Wholesale	Medium	51 – 250	≤ 220
	Small	11 – 50	≤ 80
	Micro	0 – 10	≤ 20
Catering, accommodation, and other trades	Medium	51 – 250	≤ 40
	Small	11 – 50	≤ 15
	Micro	0 – 10	≤ 5
Transport, storage, and communications	Medium	51 – 250	≤ 140
	Small	11 – 50	≤ 45
	Micro	0 – 10	≤ 7.5
Finance and business services	Medium	51 – 250	≤ 85
	Small	11 – 50	≤ 35
	Micro	0 – 10	≤ 7.5
Community, social and personal services	Medium	51 – 250	≤ 70
	Small	11 – 50	≤ 22
	Micro	0 – 10	≤ 5

It is noted from Table 1 that the upper scale of the total annual turnover for each class or size of small businesses is relatively higher than that of the maximum turnover required to meet the tax concessions available under Section 12E of the ITA (see 2.5.3.1). A comparison of small business definitions by various countries was outlined in table 2 below.

Table 2: Comparison of how different countries define small businesses

Number of employees					
OECD	Europe	Nigeria	Egypt	SOUTH AFRICA	
				S12E	NSBA
Micro ≤ 10	< 10				< 10

Small 50	≤ 10 - 49	< 300	10 - 200	≥ 3	11 - 50
Medium	50 - 249				51 - 250
Revenue comparison					
OECD	European	Nigeria	Egypt	SOUTH AFRICA	
				S12e	NSBA
Micro N/A	– ≤ EUR 2 000 000	< N 100 000 000	EGP 1 000 000 – 50 000 000	≤ R 20 000 000	≤ R 20 000 000
Small N/A	- ≤ EUR 10 000 000		-		≤ R 80 000 000
Medium N/A	- ≤ EUR 50 000 000		EGP 50 000 000 – 200 000 000		≤ R 220 000 000

The comparison of many SMEs' definitions from around the world revealed that finding its common ground is challenging. The South African SME definition, as submitted above, is aligned with the European Union in terms of employee count. The misalignment is on the maximum revenue; for example, medium sized businesses in South Africa and Europe have a variance of 170 million (220 million – 50 million) . Nigeria, on the other hand, has 50 employees more than South Africa and 110 million (100 million – 220 million) in income less than South Africa when comparing medium-sized businesses. Egypt's definition varies with 200 employees and a maximum revenue of EGP 200 million, which is smaller than South Africa's. Notably, the definitions of SMEs in South Africa, Nigeria, and Egypt are different.

2.3 SIGNIFICANCE OF SMALL BUSINESSES

According to Fehntoluwa and Omolara (2019:223), the importance of SMEs in emerging nations, particularly Nigeria, is steadily increasing. Since SMEs are important in Nigeria, all resources available to promote a country's economic wellbeing are utilised for the growth of all types of industries as they are inter-dependent.

A study conducted by Thekiso (2004:29) emphasises the significant role played by SMEs in both developed and developing nations' economic development and growth:

- In the USA SMEs are recognised to be creating employment and supporting the country in gaining a competitive edge;
- In Thailand, SMEs constitute 87% of the manufacturing sector's labour force;
- In Zimbabwe, SMEs constitute 15% of the manufacturing sector;
- In Ghana, SMEs employ 85% of the manufacturing sector's labour force and account for 80% of the private sector; and
- In Uganda, SMEs contributed 58% of GDP in 2002.

Due to their crucial role in accomplishing the nation's goals for economic growth and employment, SMEs have long been seen as a major sector for development and growth in South Africa (Scholtz & Gravenorst, 2019:1). According to the National Development Plan (NDP, 2030), developing small and medium-sized businesses and domestically focused businesses will provide the majority of the new jobs (National Planning Commission, 2012:32; Davis Tax Committee, 2014:5). According to Statistics South Africa's 2019 Annual Statistics Survey, small businesses contributed almost 22% of the country's total corporate turnover, or R2.3 trillion, out of a total of R10.5 trillion (Stats SA, 2020). It is undeniable that this industry is a significant economic contributor, even though South Africa's SMEs make up a smaller portion of GDP than those of EU countries (39% vs. 57%), (Kalidas et al., 2020).

From a national to a provincial landscape, this local study examined the small businesses of Bloemfontein in the Free State Province (RSA). The Mangaung Municipality encompasses Bloemfontein, the country's sixth biggest metropolis and

the commercial hub of the Free State with a population of almost 850 000 people (Municipalities of South Africa, 2022). Bloemfontein, also known as 'The City of Roses', is the Free State's commercial capital whose economy is dependent on service and government-related enterprises (Municipalities of South Africa, 2022). According to the Mangaung Metropolitan Municipality's 2019/20 Annual Performance Report, tax revenue collection underperformed in 2019/20. This refers to all taxes that contribute to the Government fiscus. Hence, the city's finances have become depleted because of the decrease in the national tax revenue collection rate (Municipalities of South Africa, 2022).

The importance of small businesses in advanced and emerging economies cannot be overstated. South Africa, like the rest of Africa, South America, and certain Asian nations, is still a developing economy, and small businesses have been highlighted as one of the primary drivers of economic progress (SEDA, 2016:5). The South African economy has a long road to recovery as we emerge from the disastrous Covid-19 pandemic (Timmis, 2021:30). The unemployment rate has risen to 34.4%, and the economy is only expected to return to pre-pandemic levels by 2025; but even though the future is gloomy, South Africa has the opportunity to drastically improve if there is proper assistance for small businesses as a proven driver of the economy (Timmis, 2021:30).

2.4 CHALLENGES AFFECTING SMALL BUSINESSES

A high percentage of novice business owners and entrepreneurs fail. According to a study conducted by Cowan (2019), 20% of small businesses fail in the first year, 30 % in the second year, 50% in the fifth year, and 70% of small businesses fail inside a decade. In an article by Neneh (2021), it was stated that small businesses face a variety of challenges, including the vulnerabilities of newness, smallness, poverty, and inaccessibility to external funds. Additionally, Neneh (2021) points out that riots and looting in South Africa (which is not a one-time occurrence, as riots have been recurring events since the days of apartheid), leave big and small businesses to shoulder the costs as they pay the ultimate price for the behaviour of angry and hungry citizens (e.g. the reaction to Jacob Zuma's imprisonment in 2021, and the rampant unemployment rate).

Another challenge confronting small businesses is bookkeeping principles. A cloud-based commerce platform revealed that 47% of small business owners are averse to the financial costs of bookkeeping, while 13% are against the administrative problems which takes time away from their workday (Lightspeed, 2021). This revelation became evident during the early days of the Covid-19 pandemic in 2020 where a number of small businesses applications for relief packages were rejected due to not providing the following:

- Small businesses requesting for help could not show evidence of profitability prior to the Covid-19 epidemic, such as management accounts for the period 1 March 2019 to at least 31 December 2019 (SME South Africa, 2020).
- Compliance to taxation (SME South Africa, 2020).

In a study conducted by Kalane, (2015:115), the above challenges were confirmed since the primary causes of SMEs' failure in the Free State Province were identified to be:

- Inadequate business and financial planning, as well as minimal management over cash flow;
- Inadequate funding, a lack of understanding taxation processes, failure to reinvest revenues, and inadequate management and planning; and
- Inadequate knowledge of financial management.

Since small businesses are the backbone of our economy, it is therefore discouraging to learn that they still confront challenges that negatively affect their finances and future development. From a tax perspective, this research sought to interrogate the assistance or support systems that was provided to promote the development of South Africa's small businesses. As such, the assistance specifically refers to issues related to tax concessions provided by SARS which are intended to create an enabling environment (in terms of taxation) for SMEs to thrive as they are drivers of economic development. The tax benefits for small businesses in South Africa are dependent on how the specific entities are classified for tax purposes.

2.5 INCOME TAX CONCESSIONS FOR SMEs IN SOUTH AFRICA

It was mentioned that there are several definitions and criteria for small businesses at the global, national, and local levels. However, all the definitions and criteria provided for a small business lie outside the context of taxation. Since the purpose of this study was to evaluate the income tax concessions available to small businesses, it is crucial to analyse definitions of a small business within the context of taxation in order to evaluate the information sources between SARS and other institutions. Discrepancies between the definitions and criteria for small businesses in the ITA, and those indicated in table 1 were critically examined, since it might be connected to one or more of the obstacles that small businesses face.

The following concessions in the ITA were outlined below, with the main focus being on the small business corporation concessions in Section 12E:

- Capital gains tax relief for a small business (Eighth Schedule);
- Relief for a micro-business (Sixth Schedule); and
- Relief for a small business corporation (RSA, 1962).

2.5.1 Capital Gains Tax Relief for a Small Business

In 2001, the Government enacted the Capital Gains Tax criterion. South African residents were subjected to Capital Gains Tax on the sale of assets. When assets are sold or presumed sold, Capital Gains Tax is usually applied. However, the Eighth Schedule of the ITA has a number of exceptions to this general rule. The sale of small business assets or an interest in a small business up to a value of R1.8 million, is one such exception. Before the exclusion can take effect, a number of conditions must be satisfied.

Paragraph 57 of the Eight Schedule of the ITA states that a natural person shall disregard any capital gain assessed in relation to the sale of:

- an active business asset of a small business owned by that natural person as a sole proprietor;

- a natural person's interest in each of the active business assets of an enterprise that qualifies as a small business that is held by a partnership; or
- a natural person with a direct interest in a business that qualifies as a small business of at least 10% (RSA, 1962).

To be eligible for the aforementioned concessions, all of the following conditions must be met:

- The person must have held that active business asset or interest in the partnership or company for at least five years for his or her own benefit prior to disposal;
- The person must have been greatly involved in the operations of that small business; and
- The person is required to have reached the age of 55 years; or the disposal must have been due to illness, other disability, superannuation, or death.

According to paragraph 57(1) of the Eighth Schedule of the ITA, a small business is defined as a business with a market value of all its assets that does not exceed R10 million as at the date of the disposal of the asset or interest (RSA, 1962; SARS, 2003: 48). Where a person owns more than one small business, the cumulative assets of the businesses must not exceed R10 million; otherwise, the business is not deemed small. The capital gain should be divided among trade and non-trade uses, with the non-trade use having an exemption of 50%. All other assets that are not immovable property must have been used primarily and completely for the purposes of trade.

If such assets have been partially utilised for business, the concession will be applicable. This Capital Gains Tax exclusion is capped at R1.8 million per natural person during his/her lifespan. As a result, any additional capital gains exceeding R1.8 million, will be taxed.

2.5.2 Relief for a Micro-business

With effect from 1 March 2009, a turnover tax system was introduced by the South African Government to encourage small businesses to further create employment

opportunities and to generate income. This was prompted by the statement of the Minister of Finance in the 2013 Budget Speech which highlighted the significant role played by small businesses in the South African economy through employment creation and income generation (RSA, Budget Speech by Minister Gordhan, 2013: 12). The Sixth Schedule was promulgated to make smaller businesses liable to a turnover tax rather than a tax on taxable income (Reitz, 2009). The Sixth Schedule of the ITA sets out the requirements for a small business (that it is classified as a micro-business) to be eligible for turnover tax, including the taxes that must be paid by a micro-business that fits the criteria.

According to Paragraphs 2 and 3 of the Sixth Schedule of the ITA, a micro-business can be a natural person or a company with an annual turnover of not more than R1 million per year of assessment. These Paragraphs of the Sixth Schedule of the ITA further prohibit persons listed below from having an invested interest in a micro-business:

- Persons having specific interests in other businesses;
- Persons who make their living mostly via investments or as professional personal service providers and labour brokers;
- Large capital inflows from the sale of business assets (greater than R1.5 million across a three-year period);
- Exclusions apply to some companies, such as when a shareholder is a juristic person; and
- There are some partnership exclusions - if one of the partners is a juristic person, or if one of the partners is a partner in many partnerships.

The above indicates that some businesses are expressly excluded from meeting the criteria of a micro-business for the purpose of delivering on the mandate to support true micro-businesses (Koekemoer et al., 2022:934).

There are no deductible expenses that relates to the business under the turnover tax system, and the concepts of recoupment are equally irrelevant to the turnover tax of a micro-business because no deductions or allowances are allowed (Koekemoer et al., 2022: 935). Furthermore, it is important to note that turnover tax can only be paid as a replacement of standard income tax, capital gains tax, and dividends tax. Small

businesses that meet the definition set out above qualify to use turnover tax rates in the computation of taxes payable. Table 3 below outlines the process of calculating the income tax:

Table 3: Taxable turnover calculation guide (Koekemoer et al., 2022:936)

GENERAL INCLUSION (PAR 5)	<ul style="list-style-type: none"> • Amounts received • Not of a capital nature • During that year of assessment • From carrying on business activities in the RSA
+	
SPECIFIC INCLUSIONS (PAR 6)	<ul style="list-style-type: none"> • 50% of the proceeds from the sale of any capital asset utilised primarily for business purposes (other than a financial instrument) as in paragraph 6(a)). • Investment income (excluding dividends) as in paragraph 6(b))
-	
SPECIFIC EXCLUSIONS (PAR 5 AND 7)	<ul style="list-style-type: none"> • Amounts refunded from suppliers as in paragraph 7(d) • Amounts refunded to customers (par 5)

Where a qualifying micro-business traded for fewer than 12 months in a specific year of assessment, the qualifying turnover should be prorated according to the months of trade using the applicable rate of tax (SARS, 2017:7). Once the accurate taxable turnover has been calculated, the tax amount of a registered micro-business is established by applying a certain turnover tax rate to the taxable turnover for the year of assessment. Outlined below is the turnover tax rate applicable for the assessment year ending between 1 March 2021 and 28 February 2022:

Table 4: Turnover rate table for the financial year ended 28 February 2022 (Koekemoer et al., 2022:936)

Turnover (R)	Rate of tax (R)
0 – 335 000	0%
335 001 – 500 000	1% of each R1 above 335 000
500 001 – 750 000	1 650 + 2% of the amount above 500 000
750 001 and above	6 650 + 3% of the amount above 750 000

Paragraph 14 of the Sixth Schedule of the ITA specifies that the following records are required for micro-businesses (RSA, 1962):

- All payments received over the assessment year must be recorded in full as per paragraph 14(a).
- The micro-business shall keep track of any dividends paid throughout the assessment year as per paragraph 14(b).
- There should be a recorded list with details of:
 - Every asset that is available at the end of the year under review with a cost price of over R10 000 as per paragraph 14(c), and
 - Every individual liability of the micro-business that is above R10 000 at the end of the year of assessment as per paragraph 14(d).

It is noted that qualifying micro-businesses benefit from lower turnover tax rates than the standard tax system. This emanates from the decreased recordkeeping requirements of allowable tax expenses that lessens the necessity for tedious recordkeeping. Small businesses have the choice of deciding whether or not to apply for these provisions. If they do not choose to, they may still qualify for other tax benefits, such as in Section 12E (discussed below) and the capital gains tax relief outlined above.

2.5.3 Relief for a Small Business Corporation

In order to encourage investment, economic growth, and employment creation in South Africa, qualifying small businesses may be eligible for standard tax relief in the form of reduced tax rates (Koekemoer et al., 2022:22). In recognition of this sector's ability to create jobs, a specific exception was created with effect from 1 April 2000 (SARS, 2018:1). Relief provisions were implemented to encourage the economic growth of specific regions to foster the development of SBCs, and to encourage particular activities (Koekemoer et al., 2022:22). Section 12E was designed to guide processes of the relief provided to SBCs under this special dispensation (SARS, 2018:1). The subsections that follow outline the additional requirements for becoming a SBC as well as the shortcomings of Section 12E. Lastly, an example has been provided to illustrate the relief granted to small businesses in order to situate this section of the ITA into perspective.

2.5.3.1 Section 12E requirements

The ITA stipulates the following requirements in Section 12E (4) that a small business has to meet in order to apply for Section 12E tax benefits (RSA, 1962):

- *To qualify as an SBC, a business must be one of the four legal personalities.*

According to Section 12E(4)(a) of the ITA, the four legal personalities are: close corporation, co-operative, private company, or personal liability company (as contemplated in s 8(2)(c) of the Companies Act).

- *A qualifying entity's shareholders or members must all be natural persons at all times throughout the relevant assessment year as per section 12E(4)(a).*

A juristic person, such as another business, a trust, or another entity, cannot own any portion of an SBC's share capital or members interest (SARS, 2018:6). This means that even if the condition is not satisfied for one day during the assessment year, it will exclude a qualifying firm from becoming an SBC for the year of assessment in which it is not met, regardless of whether all other requirements are fulfilled (SARS, 2018:6). Many businesses in South Africa have shares held by a family trust rather than by the owner personally (Simone,

2020). In this instance, the business is unable to be classified as an SBC unless all beneficiaries have a vested right in the shares or members interest throughout the assessment year and are natural people (Simone, 2020).

- *Holders of shares in, or members of, the qualifying entity may not own any shares or have any interest in the equity of any other company at any point during the assessment year as per Section 12E(4)(a)(ii).*

This requirement excludes those entities explicitly approved that are inactive and have assets to the of value of less than R5 000. This restriction is in place in order to prevent numerous shareholdings or arrangements from being utilised to split revenue between several eligible businesses, resulting in an excessive tax benefit for taxpayers (Simone, 2020). Interpretation Note 9 of SARS stipulates that a share or interest held as a trustee or nominee in the equity of another company will ordinarily not be considered to be in violation of this requirement if the holder or member is not the beneficial owner of the share or interest and is not entitled to any profits, income, or capital of that other company for the relevant assessment year (SARS, 2018:7).

- *A qualified entity's gross income for the year of assessment must not exceed R20 million as per Section 12E(4)(i).*

Interpretation Note 9 stipulates that gross income includes income that is not subject to regular taxation, such as a non-capital Government grant that qualifies for a Section 12P exemption (SARS, 2018:8). In addition, taxable capital gains are not included in gross income since Section 26A explicitly allows a taxable capital gain to be included in the calculation of taxable income (SARS, 2018:8). Therefore, in order for a small business to meet this requirement it is important to consider factors such as what defines gross income, what constitutes a tax year, and whether the R20 million cap must be decreased if the entity only traded for part of a year.

- *Investment income (dividends, royalties, rents, and interest) and revenue from providing personal services should not account for more than 20% of total income if three or more unconnected full-time employees are not employed as per Sections 12E(4)(iii) and 12E(4)(d).*

It is possible for a qualifying entity to provide a service that is conducted by a person with an interest in the qualifying entity (or a person who is a connected person in relation to the person who holds such an interest), and the eligible entity employs fewer than three full-time workers who are not related to that person in the business of providing that service (SARS, 2018:13; RSA, 1962). Only the service performed by the person who holds the interest, or by a connected person in respect of such person, is considered a personal service in this case (SARS, 2018:13;RSA, 1962. This is significant because in order to determine whether the 20% limit on investment income and income from providing a personal service has indeed been exceeded, the amount of income from providing a personal service must be determined, which will necessitate an apportionment of the income contributed by such persons' involvement (SARS, 2018:14; RSA, 1962) The Act does not specify a manner of record-keeping or apportionment for determining personal service revenue; it can be done using an hourly charge out system, per work, or any other applicable manner (SARS, 2018:14; RSA, 1962). A personal service is not the same as a personal service-provider. Even though the descriptions of personal service and personal service-provider have certain similarities, they also vary significantly (Smulders & Oberholzer, 2006:7). As a result, both meanings must be assessed in view of the information of each instance.

- *The company should not be personal service-provider as defined in the Fourth Schedule of the ITA as per Section 12E(4)(a)(iv).*

A small business that satisfies all of the above-mentioned requirements of Section 12E is eligible for tax relief in the form of expedited tax deductions and reduced taxes. If one of the requirements is not met, the entity is disqualified from being classified as an SBC. Section 12E of the ITA provides relief; firstly, by availing two sets of accelerated depreciation rates which may apply to an SBC's assets (RSA, 1962):

- Assets utilised directly in a manufacturing or equivalent process may claim a 100% write-off in the year of assessment in which the asset is brought into use as per Section 12E (1).
- Assets that do not fall into that category may be written off over three years at a rate of 50, 30, and 20 per cent in each year as per Section 12E(1A).

The second type of relief awarded by the ITA is the reduced tax rates that an SBC can apply on the taxable income in order to reduce the tax payable for the year.

Table 5: SBC income tax rates for the year ended 31 March 2022 (SAIPA, 2022)

Small Business Corporations – In respect of any year of assessment ending 1 April 2021 to 31 March 2022	
<i>Taxable income</i>	<i>Rate of Tax</i>
Not exceeding R87 300	0% of taxable income
Exceeding R87 300 but not exceeding R365 000	7% of amount by which taxable income exceeds R87 300
Exceeding R365 000 but not exceeding R550 000	R19 439 plus 21% of amount by which taxable income exceeds R365 000
Exceeding R550 000	R58 289 plus 28% of amount by which taxable income exceeds R550 000

The reduced tax rates in Table 4 which are applicable for financial year ending in 2022 will be applied in the example provided in section 2.5.3.2.

- An example reflecting the benefits of applying Section 12E in relation to the normal income tax rate for companies

As noted in paragraph 2.5.3.1, SBCs qualify for favourable tax rates and deductions on eligible assets. To demonstrate the benefits of Section 12E of the ITA, an example of a small business that qualifies as an SBC and a small business that does not qualify as an SBC for the assessment year that ended on 28 February 2022, are shown based on the following information:

- Turnover of the entity - R17 500 000.

- Manufacturing assets bought in the current year at a cost of R500 000. The manufacturing assets bought qualify for a 100% deduction in the first year of purchase as per Section 12E (1) of the ITA. If the business does not qualify as an SBC, a 40% deduction is allowable in the first year as per Section 12C of the ITA for other entities.
- Non-manufacturing assets bought in the current year at a cost of R300 000. The manufacturing assets bought qualify for a 50% (50/30/20) deduction in the first year of purchase as per Section 12E(1A) of the ITA, otherwise a 20% deduction is allowable as per section 12C of the ITA for entities that do not qualify as an SBC.
- Salaries and general operating expenses for the current year amounted to R16 000 000.
- Normal tax is charged at 28% for the year under review for a company that is not an SBC.

Table 6: Example of a business that qualifies as an SBC

<i>TRANSACTION</i>	<i>SBC (R)</i>	<i>NORMAL TAX (R)</i>
INCOME:	17 500 000	17 500 000
EXPENSES:		
- Wear & Tear manufacturing	(500 000)	(200 000)
- Wear & Tear non-manufacturing	(150 000)	(60 000)
- Salaries and general operating expenses	(16 000 000)	(16 000 000)
TAXABLE INCOME	850 000	1 240 000
TAX PAYABLE FOR THE YEAR	142 289	347 200
TAX SAVING FOR SBC	204 911	

The following may be inferred from the preceding example:

- The rates applicable to SBCs for manufacturing assets are the most advantageous since they provide a 100% deduction of the cost in the

first year for assets used in a process of manufacture and a deduction of 50% of the cost in the first year for all other assets.

- The tax payable at the conclusion of the financial year under review is significantly lower for a business that qualifies as an SBC than for an entity taxed at the normal tax rate, resulting in a tax savings of R204 911.

It can be perceived from the above example that small businesses who qualify under Section 12E of the ITA do get income financial benefits through tax savings. Cash flow relief is provided in the first year with the accelerated capital allowances that can be claimed by an SBC, in addition to the more favourable tax rates. The next section discusses the shortcomings of Section 12E.

2.5.3.2 Possible factors compromising the success of section 12E of the ITAs

In every seed of good there is always a piece of bad (Moore, 1996).

Teresa Moore's (1996) apt quote above, is in line with Section 12E which has certain flaws that compromise the goal it was created to achieve (as mentioned in 2.5.3 above). Smulders and Oberholzer (2006:7) and Willemse (2011:529) contend that there is some uncertainty about whether some business activities fall under the description of personal service. Willemse (2011:546) also raised a concern that the meaning of professional service raises the possibility of an interpretation difficulty since it provokes the question of how professional a taxpayer's service must be in order to be regarded as a 'professional' for the purposes of Section 12E. A relevant analogy would be the making of wildlife films (Smulders & Oberholzer, 2006:7). This activity is not officially listed in the definition of personal service in Section 12E(4)(d); however, it might come under broadcasting. Each of these terms' real meanings would have to be determined using a dictionary, and this is then applied to the facts to evaluate whether the service is a personal service before determining whether the organisation fits all of the other standards of an SBC (Smulders & Oberholzer, 2006:7). This implies that if there is any question about an activity conducted by a business, it

requires analysis and interpretation by referring to its conventional meaning (Smulders & Oberholzer, 2006:7).

Smulders and Oberholzer (2006:7) and Willemse (2011:529) add that the requirement of shareholders not authorised to hold any shares or even have any stake in the equity of any other firm, results in discriminatory treatment since there was no clarification in the explanatory memorandums - neither in the Interpretation Note No. 9 (SARS, 2006) nor the Interpretation Note No. 10 (SARS, 2008)) that established and later dealt with SBCs on the subject.

The National Treasury (SA) and SARS, (2020:161) highlight that approximately 33,59% of potential SBCs are using the preferential tax rates. This is concerning because SBC reduced tax rates do not benefit small businesses that do not have a taxable income. The Davis Tax Committee, (2014:18) stated that increased wear and tear allowances are essentially a temporal difference with no influence on the growth and development of SBCs. However, Stols (2013:23) contends that accelerated wear and tear allowances can assist SBCs to improve their cash flow during their initial years, allowing them to become more firmly developed. Knowing the shortcomings of Section 12E provided a better understanding of what prevents the accomplishing of its goals (i.e. assisting small businesses in order to grow the economy). An analysis of the shortcomings enabled the formulation of appropriate questions used during the interviews that engendered solutions that led to recommendations to mitigate the challenges that hindered the successful operation of SMEs (see chapter 4 and 5).

2.6 CONCLUSION

The literature review included the introduction, which included a summary of the importance of small businesses in the economy. Small businesses have been recognised across the world as promoters of local business interactions, resulting in a thriving local economy. They remain critical to job creation, tax revenue generation, and economic growth internationally. South Africa is dealing with a high rate of unemployment which was exacerbated by the Covid-19 pandemic. An analysis of the definitions explored in the chapter follows:

The comparison as seen on Table 2 demonstrates the strong difference between section 12E of ITA and other definitions used universally. The number of employees that SARS anticipates is higher than that of African and European nations. Small businesses must have between 0 and 250 employees, although SARS mandates that any personal services must have at least 3 employees. The NSBA allows up to R80,000,000 in income, whilst SARS has a maximum turnover of R20,000,000. On the other side, revenue appears to also indicate a significant variation.

This chapter further emphasises how advantageous it is for an SBC to correctly understand and implement the present requirements of Section 12E of the ITA. It has been also noted that there are factors that compromise the relief received by SBCs such as the exclusion of companies providing a personal service. It was noted that the current definitions of a small business are still quite varied. This may result in small businesses struggling to meet these income tax concession requirements, and so lose out on the reduced tax benefits that are aimed at assisting in their growth and employment generation. An example to reflect the benefit of applying the reduced tax rates under section 12E has been provided in Table 6.

CHAPTER 3 RESEARCH METHODOLOGY

3.1 INTRODUCTION

Research is defined as a thorough and extensive investigation of a chosen topic, concern, or issue (Scalia, 2022). Bryman et al. (2014: xxi) state that research in business and management refers to academic study on aspects relevant to business and management issues which have a sociology focus. Therefore, in order to successfully conduct research on business and management matters, such as this study, the correct and relevant study design and sample must be selected. In this chapter, an appropriate reason was stated for the study design, sample selection, and data collecting procedures.

3.2 RESEARCH PHILOSOPHY AND RESEARCH METHODOLOGY

Saunders, Thornhill and Lewis (2019: 130) consider research philosophy as a system of beliefs and assumptions regarding the generation of knowledge. Epistemology therefore is a discipline of philosophy which concerns how knowledge is formed, with a particular emphasis on the origins of knowledge which researchers must examine while conducting their study (Guragain, 2020). Furthermore, Jansen and Warren (2020) define research philosophy as the practical "how" of any specific part of study; it refers to how a researcher prepares a study in a methodical way to guarantee that the results are reliable and accurate and satisfy the research's purpose and objectives. This includes (but is not restricted to) beliefs about reality encountered during study (ontological beliefs), beliefs about human knowledge (epistemological beliefs), and the degree to which and how your own values impact your research method, according to Saunders et al. (2019: 179). (axiological assumptions).

For instance, it outlines what the researcher decided on the following (Jansen & Warren, 2020):

- What information should be gathered?
- Who to gather it from?

- How to gather it?
- How to analyse it?

Pragmatism focuses on specific conditions rather than abstractions, such that the information gleaned is valued for fostering the understanding of a situation which must be taught or gained from the experiences of others (Salkind, 2010:3). The sample of this study consisted of participants with varied human experiences. Hence, pragmatism was favoured as the epistemological perspective because it highlights human experience as the foundation for decision-making (Salkind, 2010:3).

3.3 RESEARCH APPROACH AND DESIGN

By emphasising words, statistics, or both, qualitative, quantitative, and mixed-methods strategies can be distinguished from one another. Despite being oversimplified, this provides a good foundation for understanding (Jansen & Warren, 2020). Qualitative research involves gathering and analysing primary non-numerical data, such as words, images, and behaviors (Bryman et al., 2014:41).

Considering the above, data was collected through interviews where the feedback received was in the form of words as opposed to the quantitative approach where the focus is on rating and/or statistics. Therefore, a qualitative research approach was adopted in this study since the researcher was interested in evaluating the opinions (words) of tax practitioners in Bloemfontein. The study was inductive in nature since the researcher had to first collect data, and then analyse it to obtain the desired results to formulate the findings.

Exploratory study examines topics that haven't been fully examined before. It is also occasionally referred to as interpretative research or a grounded theory method due to its flexible and open-ended character. Due to the exploratory nature of the study's aims and objectives, a qualitative technique was adopted.

3.3.1 Participant Selection

3.3.1.1 Population

A population is described as the range of components from which the sample will be derived, such as persons, nations, cities, regions, and firms, among others. A sample size is the segment or subdivision of the population chosen for the research (Bryman et al., 2014:170–171). Registered tax practitioners are the only persons allowed to provide advice, as well as complete returns for consideration on behalf of taxpayers in terms of Section 240 of the Tax Administration Act No. 28 of 2011 (RSA, 2011). Registered tax practitioners are therefore persons with specialised knowledge about tax as well as with insight into various businesses which require tax advice. Individuals register as tax practitioners with different controlling bodies recognised by SARS. The website of SARS contains a list of registered controlling bodies but does not provide a list of registered tax practitioners; the only option available on the site is to validate the credibility of a tax practitioner. As at October 2022, the Independent Regulatory Board for Auditors (IRBA) was one of only two controlling bodies recognised automatically by the Tax Administration Act No. 28 of 2011 (RSA, 2011); the other being the Legal Practice Council. The IRBA is the statutory organisation in South Africa that regulates the Section of the accounting profession that deals with public accounting (IRBA, n. d.). Although audit firms specialise in auditing, they also assist in tax and other services to a variety of businesses (SAICA, 2021), especially in Bloemfontein which is not a big city. The population in this study therefore included audit firms registered in Bloemfontein on the IRBA database. This database acquired from IRBA consisted of thirty-five firms situated in Bloemfontein.

3.3.1.2 Sampling strategy

A sample refers to the number of participants who will actually participate in the study. Participants in a population are chosen based on non-random criteria in a non-probability sample, and not every participant has an opportunity of being included (McCombes, 2022; Bryman et al., 2014:170–171). This study, being an exploratory research project, applied the non-probability sampling approach since the goal was to gain fresh knowledge concerning a restricted or under-researched community, rather than to test a theory about a large population (McCombes, 2022).

The researcher was not permitted to generalise the population since purposeful sampling is a type of non-probability sampling (McCombes, 2022). Purposive sampling was applied for this reason, as well as for its subjective nature in selecting participants who were relevant to the study's objectives.

Purposive sampling aided in the following areas:

- Selecting a group of participants who had in-depth information that no one else possesses (McCombes, 2022). An appropriate population was selected for the study with the help of the IRBA database which consisted of individuals with relevant information in the area of taxation.
- The researcher ensured that there were sufficient differences between the sampled participants in terms of essential attributes (Bryman et al., 2014: 186). The selected sample was carefully composed from varied backgrounds using specific attributes depending on the expertise of the participant.

3.3.1.3 Sampling size

The decision of selecting a sample size was influenced by factors such as time and cost – this implies that there is no straight-forward answer, and generally a compromise is reached between the limits of time and money, as well as the need for accuracy, among other factors (Bryman et al., 2014: 176). Bryman et al. (2014: 177) note that where a sample could not be expanded, there must be many positive characteristics about it, such as the range of participants included, the response rate, and the degree of cooperation obtained. The IRBA office in Bloemfontein was asked to rank audit firms in the population from the biggest to the smallest. Initially, the researcher contacted fifteen firms from an IRBA list which were chosen based on their size, in descending order (top five, middle five and bottom five). However, because only eight of the fifteen firms responded to the request, interview requests were then sent to all firms on the population from the IRBA list. Subsequently, the sample comprised of the eight firms and two new participants who were interviewed in their capacity as accounting professionals. Interviews were conducted with representative tax practitioners of the firms.

3.3.1.4 Data saturation

Data saturation implies the absence of any new information that might potentially enhance or impact research findings (NSFconsulting, 2022). Data saturation revolves on the question of how much data (typically the number of interviews) was required until nothing new emerges, or what Grady (1998:26) refers to as “informational redundancy” which is described as follows:

New data tends to be redundant with previously obtained data. When a researcher hears the same statements [repeatedly] during an interview, he or she has attained data saturation. Then it's time to cease gathering information and begin analysing what has been gathered.

Data saturation occurs when there is enough information to replicate the study and the ability to obtain new information has been achieved. In other words, additional information was no longer possible to obtain (NSFconsulting, 2022). There appears to be no one-size-fits-all technique for reaching data saturation, as this can only be determined after conducting qualitative interviews and analysing data. As such, the collection of information was not continued after the 10th interview since data saturation was reached.

Guest, Namey and Chen (2020:13) provide a simple method to assess and report thematic saturation in qualitative research using the 0.05 new information threshold. Over decades, the acknowledged threshold to distinguish between significant and non-significant data has been 0.05 (Di Leo & Sardanelli., 2020:3). Typically, six to seven interviews will capture the majority of themes in a homogenous sample where six interviews reach 80% saturation (Guest et al., 2020:13). For this study, after participant eight's interview, it was apparent that no new information was presented that may have improved or altered the study's findings (as discussed in section 3.3.1.4). Since information obtained through the interviews was repetitive responses, it was indicated that data saturation had been reached. The researcher stopped collecting data after the 10th interview in order to start analysing the data that had been collected. The actual data collecting process, which slightly deviated from the intended process, was outlined in the subsection below.

3.3.2 Data Collection

Structured, semi-structured, and unstructured research interviews are the three main types (Bryman et al., 2014: 215). Unstructured interviews are performed with minimal to no planning and do not use any predefined concepts or assumptions (Gill, Stewart, Treasure & Chadwick, 2008: 291). Such an interview may simply begin with an introductory question such as: can you tell me about your experience going to a particular place? It will then proceed to probing for clarity or elaboration, depending on the initial response (Gill et al., 2008: 291). Therefore, in order to elicit views concerning tax concessions available to small businesses in Bloemfontein, the semi-structured interview technique was the most suitable option. Once the interview schedule containing the interview questions had been created, a list with the firms' contact details was accessed from the IRBA website. The researcher used this list of firms to request permission to conduct research (with these firms) using templates provided by Economic and Management Sciences (see Appendices B and C on page 85 and 86). Contacting the different firms' administrative offices allowed the researcher to validate their information from the website of IRBA. After many follow-ups with the chosen participants, the researcher physically visited the offices in an effort to get feedback on invitations to interviews. Through calls and office visits, it was simple to confirm the participants' contact details; but when their information differed from that on the IRBA list, the updated contact information was provided. Four of the fifteen firms invited declined the invitation, and three firms did not respond. The eight firms who consented to participate used the Request for Permission to Conduct Research form (see Appendix B on page 85) to provide approval since the name of the firm appeared on the form.

Unfortunately, for some firms, arranging interviews proved difficult due to delays in receiving approval for the invitation to do research from the appropriate internal authorities of the firms. Additionally, the participants' busy schedules due to a busy tax season, made it difficult to organise interviews. Consequently, the researcher had to devise modifications:

- Initially the researcher approached 15 firms from the list of firms provided by IRBA, and the firms were selected using their size ranging from top to bottom (top five, middle five and bottom five). However, interview requests

were sent to all firms on the population received from IRBA since only eight of the 15 firms (who were initially selected) responded to the request.

- In addition to the representatives of the eight firms indicated above, two new participants were interviewed in their capacity as accountancy professionals. Both these participants work for a firm that is part of the IRBA population. Both have a wealth of expertise as tax professionals who worked on numerous small business tax engagements over several years in their private capacity.
- Despite this alteration, the researcher managed to receive feedback from different sizes of firms ranging from big to small, which satisfies the initial goal of a fair selection. Even though the sample obtained from IRBA were firms, it is important to note (as previously stated) that it is individuals in the firm that perform the work. Such individuals are not necessarily registered but perform their work under the registered details of a tax partner.
- Due to time constraints, some interviewees requested to provide written responses by utilising the interview schedule to record their experiences and opinions.

The above-mentioned modifications were instituted in order to proceed with the study with the consenting participants. In doing so, the delay created by regulatory requirements of obtaining approval from firms, was minimised. Furthermore, the researcher ensured that no ethical standards were violated as a result of the aforementioned modifications, so the participants did not divulge any private organisational information while functioning in their personal capacity. These individuals were only engaged to provide knowledge and insight pertinent to this study. The total number of respondents rose from 8 to 10 as a result of this inclusion.

Despite the fact that the participants from the firms faced numerous difficulties, as was previously discussed, the opinions and insights presented by the eight participants were appropriate and sufficient since data saturation was reached at the eighth participant. In order to give the reader a sense of who participated, the section that follows describes the biographical details of the participants.

Table 7: Interview schedule

<p>To evaluate the extent of the utilisation of tax concessions in accordance with Section 12E of the ITA by small businesses in Bloemfontein.</p> <p>To identify challenges (and suggest solutions) that impede small businesses to take advantage of the tax concessions as stipulated in Section 12E of the ITA.</p>	
Question Sequence	Interview Question
Question 1	In your view, are small businesses aware of Section 12E of the ITA?
Question 2	How many of your clients fall into the small business corporation category?
Question 3	Has any of your clients who was registered as SBC deregistered from being classified as a SBC? If so, please explain why.
Question 4	What motivates your clients or small businesses to choose to be classified as an SBC?
Question 5	<p>How does Section 12E of the ITA, in your opinion, satisfy the following objectives?</p> <ul style="list-style-type: none"> • Lowering the cost of tax compliance for small businesses regarding time spent and costs. • Creating an environment that enables small businesses to thrive. • Assisting the growth of small businesses. • Assuring that small businesses pay lower taxes in the beginning.

	<ul style="list-style-type: none"> • Encouragement of increased asset investment. • Increasing the number of jobs created.
Question 6	Is the information supplied by SARS on Section 12E of the ITA easily comprehended by small businesses?
Question 7	How does Section 12E of the ITA, in your opinion, promote the growth of small businesses?
Question 8	Which requirements mostly disqualifies small businesses for qualifying as SBCs?
Question 9	What were the financial reasons for small business corporations closing down in the previous five years?
Question 10	What factors hinder Section 12E of the ITA to foster the success of small businesses?
Question 11	In your experience, explain why (or why not) the interpretation of professional services has been difficult to comprehend or found to be vague?
<p>To establish tax practitioners' views on appropriate tax concessions that would benefit most small businesses.</p> <p>To recommend changes to income tax legislation to promote the effective utilisation of tax concessions for small businesses.</p>	
Question 12	In your view, which tax concession can SARS introduce that would be effective in assisting small businesses?
Question 13	In your opinion, briefly explain why (or why not) should SARS consider increasing the qualifying maximum gross income of R20 million in order to be aligned with other

	<p>definitions which refer to higher annual turnover for small businesses?</p> <ul style="list-style-type: none"> • How will this consideration impact the current usage of the Section?
Question 14	Which trade did you find to fall out of scope in the definition of a personal service provider?
Question 15	How can the definition of a personal service provider be amended in order to reduce difficulty when applying the stipulations of the Section?
Question 16	How can the requirement of holding shares or have a stake in the equity of other firms, be amended in order to avoid discrimination?
Question 17	What is your proposal for improving the success of the ITA's Section 12E?

3.3.3 Data Analysis

The process of organising, processing, and analysing raw data in order to acquire useable, relevant information is known as data analysis (Kelly, 2022). In order to elicit an outcome from the collected data, data analysis played an important role in condensing the information into a more accurate and relevant form (Kelly, 2022). The results were analysed and interpreted using the thematic approach since this research was explorative in nature. Warren (2020) refers to thematic analysis as a process that organises volumes of data based on similarities/differences which assists in making-sense of the collected information. Therefore, the Excel tool was used to code and

trace themes in qualitative data received from tax practitioners. This led to creating new themes and sub-themes in supplementary columns to clearly distinguish each participant's responses to connect it to a particular subject. The following steps were followed:

- A new Excel Workbook pane for each question was created in order to structure and manage the data.
- A respondent ID was assigned to each tax practitioner in order to monitor responses of who is saying what across questions, and also to ensure their anonymity.
- In questions 8, 9, 10 and 16 the feedback was dissected for each question using the following:
 - Reading through the combined data file
 - Identifying themes
 - Refining the themes
 - Proofreading and refining the coding of responses

3.4 ETHICAL CONSIDERATIONS

Adhering to ethical procedures is critical in terms of authenticity, validity and reliability of the study (Fleming & Zegwaard, 2018: 209). Research ethics is essential for scientific integrity, human rights and dignity, and science-society partnership. These concepts ensures that research participants' participation is voluntary, informed, and safe (Bhandari, 2021). It is critical that consent (signed) be obtained prior to the commencement of information gathering from individual participants (Fleming & Zegwaard, 2018: 210). People find it difficult to accept the findings of a study if the methods used are not ethically acceptable, because violating research ethics undermines the study's legitimacy (Bhandari, 2021).

All these key ethical principles were practised and closely monitored during the study to ensure compliance to safeguard study participants' rights and dignity, as well as to

improve research validity and promote integrity. The researcher was governed by the following essential moral considerations throughout the study:

3.4.1 Permission obtained from General Human Research Ethics Committee

According to Bhandari (2021), each institution has its own ethics committee that ensures that the study purpose and design are morally acceptable and adhere to the institution's code of conduct. Ethical clearance or permission was attained from the General Human Research Ethics Committee (GHREC) of University of the Free State (see Appendix D on page 87). In addition, signed consent was obtained from all ten participants.

3.4.2 Informed consent

The researcher did not coerce any tax practitioner to participate in the study. Participants were aware that declining to participate in this research would have no repercussions. In other words, prior to agreeing or declining to participate in the study, participants understood the goal, advantages, risks, and financing (Bhandari, 2021). Tax practitioners who participated in the study were provided with all the fine details (verbal and in writing) of the proposed study, and they were allowed to decide whether to participate or not. They were also aware that exiting at any stage of the research process would not disadvantage them in any way.

3.4.3 Voluntary participation

A participant should not feel obliged to participate in research. Any sort of persuasion or manipulation used to acquire someone's trust is frowned upon (Enago Academy, 2020). Furthermore, a form with all the fine details of the study was signed as a private and confidential contract between the researcher and the participant (Enago Academy, 2020). To avoid deception, tax practitioners signed a voluntary participation agreement that gave all study information without coercion from anybody, including the researcher. According to Bryman et al. (2014:127), deception happens when a researcher misrepresents his/her study.

3.4.4 Anonymity and confidentiality

According to Bhandari (2021), anonymity is the inability to identify the participants or connect any particular participant with their data. Additionally, according to Bhandari

(2021), this may be accomplished by avoiding gathering any personal data, including names, phone numbers, emails, IP addresses, details about one's appearance, and images. Since this study's data was collected through interviews, anonymity could not be assured. However, all personal information received was treated with utmost confidentiality. The researcher was also required to keep the other participants' information confidential from the rest of the group, thus anonymity was maintained at all times (Bhandari, 2021). In the research study, privacy is closely linked to anonymity and confidentiality problems (Bryman et al., 2014: 127). All participating tax practitioners were identified via codes/pseudonyms to protect privacy and maintain anonymity. Only the researcher and the supervisor were privy to information elicited from tax practitioners. All information was stored electronically in a password-protected file in the researcher's computer. Information obtained from participants will be shredded after five years from the completion of the study. Any information, if required, such as for journal publications, will be divulged with the participant's permission.

3.4.5 No harm

The researcher must ensure that participants' safety and wellbeing are not compromised by potential sources of harm such as physical harm, emotional harm, or psychological harm (Bhandari, 2021). Diener and Crandall (1978:19) add that harm can be physical, including harm to the development of participants such as those affecting self-esteem, stress, harm to career prospects, or future employment. The researcher ensured that the tax practitioners did not suffer any risk or trauma, and that any potential risk was communicated to them.

3.5 CONCLUSION

The research methodology was explained in this chapter. This included the philosophical paradigm, the research approach, research design, sample selection, and data collection procedures. The research design featured the use of the qualitative approach, which necessitated the use of exploratory research due to the nature of the study. The sample was based on a description of the population of registered auditing firms in Bloemfontein with a sample size of ten participants selected through non-

random sampling. The research was conducted using a semi-structured interview questionnaire consisting of open-ended questions that were presented to participants. Lastly, the ethical issues were outlined. The next chapter (4) presented the results from the interviews.

CHAPTER 4 RESULTS FROM THE INTERVIEWS

4.1 INTRODUCTION

The findings extracted from the data collected from interviews with participants are provided in this chapter. Firstly, a brief description of the participants was presented. Secondly, the participants' responses to all the questions contained in the interview schedule were described by using themes (where applicable) after which conclusions were drawn regarding the results obtained from the collected data. The data analysis and discussion of results enabled the researcher to arrive at accurate conclusions and recommendations (see chapter 5) that were aligned to the aim and objectives of the study.

4.2 ANALYSIS AND INTERPRETATION OF BIOGRAPHICAL DATA

This section outlined particulars about the sample or participants who contributed in providing opinions and experiences regarding the utilisation of tax concessions as per Section 12E of the ITA by small businesses in Bloemfontein. The participants' biographical data was gathered through email signatures, LinkedIn, and company websites. The accuracy of the information was later validated by the participants. As stated, the population consisted of tax professionals working for accounting firms which are on the list provided by IRBA. All respondents (excluding two participants who responded in their personal capacity) in the population confirmed that they service small business clients in Bloemfontein, and that SBCs form part of their clientele. It is noteworthy that accounting firms perform their tax submission under one tax practitioner per office which is mostly the tax director or partner. Therefore, participants offer tax services in their firms under the credentials of a tax director or partner who is a tax practitioner.

All participants had knowledge of the contents of Section 12E of the ITA, and serviced active SBC clients. To assist the reader with details of participants of the population, the following categories emerged:

- Gender
- Length of service
- Occupation

In analysing the data, each participant was assigned a unique code which was used throughout the analysis in order to protect personal information.

4.2.1 Gender

Six of the ten participants (60%) were men, and four were (40%) were women. It was clear that the study did not obtain an equal number of individuals from each gender. The findings showed that there had not been gender balance in representation. According to Lepu (2012:352), there were not many women in the accounting field in the beginning. Given that there were more men than women in the accounting profession in the beginning, this might help to explain why the results were unequal. However, that did not influence the findings of the study as both males and females underwent the same education and training requirements.

4.2.2 Length of service

Four of the participants (40%) had 15 to 25+ years of experience. The second-highest percentage was the group with 5 to 10 years of experience (30%), while 10 to 15 years was represented by 20% of the population. The last group which had the lowest representation was one participant with 0 - 5 years of experience (10%). The number of years of experience helped to explain why data saturation was attained significantly earlier in the data collection process as 40% of respondents had experience working with small businesses on various tax engagements over many years.

4.2.3 Occupation

Notably, almost all participants had management positions in the accounting sector. Top management (directors, senior managers, and managers) and middle management (assistant managers and supervisors) dominated the number of respondents with a 60% (6 out of 10) and 30% (3 out of 10) representation respectively. One candidate (10%) was a senior trainee, which was the lowest representation. The dominance of top management and middle management in the study can be attributed to the fact that 60% of the participants have more than 10 years

of service. The population was represented by seasoned tax professionals who possessed a wealth of taxation knowledge and experience.

Based on the above, it was evident that every participant had knowledge of and experience with taxation concerning small businesses (including Section 12E of the ITA).

4.3 THE RESULTS AND THE OBJECTIVES OF THE INTERVIEW SCHEDULE

The main objective of the questions on the interview schedule was to evaluate the utilisation of the tax concessions in Section 12E of the ITA by small businesses in Bloemfontein, and to elicit tax practitioners' opinions on how to modify Section 12E in order to encourage small businesses on the effective utilisation of tax concessions provided through Section 12E. There were 17 questions in total, grouped according to the aim and objectives of the study:

- To evaluate the extent of the utilisation of tax concessions in accordance with Section 12E of the ITA by small businesses in Bloemfontein, and to identify challenges (and suggest solutions) that impede small businesses to take advantage of the tax concessions as stipulated in Section 12E of the ITA (Questions 1 - 11).
- To establish tax practitioners' views on appropriate tax concessions that would benefit most small businesses, and to recommend changes to the tax legislation to promote the effective utilisation of tax concessions for small businesses (Question 12 - 17).

A summary of participant feedback on all questions was provided (see Appendix E on page 92). Below is a detailed discussion of each question, commencing with the aim and first objective:

The aim and objectives 1: to evaluate the extent of the utilisation of tax concessions in accordance with Section 12E of the ITA by small businesses in Bloemfontein. and to identify challenges (and suggest solutions) that impede small businesses to take advantage of the tax concessions as stipulated in Section 12E of the ITA (Questions 1 - 11).

1. In your view, are small businesses aware of Section 12E of the ITA?

Question 1 asked participants if their small business clientele was aware of section 12E, which provides tax relief benefits to small business corporations. The question was designed to understand the knowledge small businesses have about the Section 12E. This question received a 100% response rate as all participants expressed their views regarding knowledge on tax relief available to a small business corporation.

Only 3 out of 10 (30%) participants indicated that small businesses were aware of Section 12E. One of the participants stated, "*I think that SARS had a large campaign during the last two years where they tried to make small businesses aware of section 12E*". Despite SARS' efforts to raise awareness of Section 12E among small businesses, the marketing campaign was wanting, since 7 out of 10 (70%) participants reported that small businesses are unaware of the section.

Another participant commented: "*When we advise our clients, whom we see meet all of the requirements, we then explain to them how the small business corporation section works*". This led to raising the question of what happens if they are unable to afford the services of a tax adviser. According to literature (OECD, 2005:28), small businesses cannot afford high tax compliance fees. This was alarming and discouraged SMEs from obtaining professional advice and services relating to taxation. Small businesses in Bloemfontein would save on taxes and become sustainable if their personnel possessed the required knowledge, skills and credentials to understand the taxation processes, specifically Section 12E (Chiloane-Tsoka et al., 2019:8).

Additionally, one participant stated that "*they do not have the knowledge of the Income Tax Act, and what we find most of our clients is that they start more than one business without knowing*". This clearly indicates that some small businesses in Bloemfontein lack the knowledge of Section 12E as they engage in activities that may disqualify them from the tax benefits afforded by this Section. According to evidence collected in this study, it appears that small businesses in Bloemfontein were not aware of Section 12 E and its concessions, but instead relied on tax practitioners' advice on taxation – this is a costly experience.

2. How many of your clients fall into the small business corporation category?

As noted in chapter two, section 12E was introduced after Muneer Hassan challenged Finance Minister, Pravin Gordhan to offer assistance to small businesses since they contribute positively to the country's economic growth. As such, Question 2 sought to establish whether or not Section 12E was used in terms of utilising tax concessions. All participants responded to the question, although 2 participants had no experience in this regard, and 1 participant assisted other firms who have small businesses with tax advisory and consulting services. This question received a 100% response rate, with 7 out of 10 (70%) participants having clients who qualified as small businesses. This demonstrated that they were able to provide meaningful feedback via the interview schedule.

Although it was difficult for the participants to provide an actual percentage (since client information is confidential), most of the participants were able to provide an estimate. One of the participants stated that it was impossible to provide a specific figure because they provided tax consulting services to accounting firms seeking assistance on behalf of their clients. Another participant stated: "I cannot comment on this as I do not have clients in my personal capacity". Even though no figures were obtained from 2 out of 10 (20%) participants, they were known for assisting small business corporation clients. Table 8 below outlines the findings for Question 2.

Table 8: Utilisation of Section 12E by small businesses in Bloemfontein

UTILISATION OF SECTION 12E									
P1	P2	P3	P4	P5	P6	P7	P8	P9	P10
15%	Not possible to mention a figure	30%	2%	16%	65%	75%	0% SBCs	No small businesses	10%

The figures shown in Table 8 above was applied to calculate the overall percentage of small businesses in Bloemfontein that utilise Section 12E using the average method. In mathematics, an average is a number that represents a set of integers with a single number using the average formula (Merriam-Webster, 2019). The following is how the overall utilisation percentage was calculated:

$$A = \frac{a1 + a2 + a3 + a4 + \dots + a5}{n}$$

$$A = \frac{15 + 30 + 2 + 16 + 65 + 75 + 0 + 10}{8}$$

$$A = 26.67\%$$

Although the calculation was based on estimates from the participants, it yielded an approximate average 27% utilisation rate. This indicated that a major percentage of small businesses in Bloemfontein do not qualify for Section 12E concessions, and therefore do not benefit from the tax savings provided by this Section.

3. Has any of your clients deregistered from being classified as an SBC? If so, explain why.

The question was posed to determine whether Bloemfontein's small businesses that had previously qualified for the ITA's Section 12E, had possibly lost their status as SBCs. The participants were also requested to provide motivation for their feedback. Two participants did not provide their opinion because they lacked personal experience and did not want to disclose company information. The response rate of this question was therefore 10 out of 10 (100%).

In response to the question, some participants contributed to more than one theme. That is why the number seems like more than 8 participants. Two participants said they had never experienced a small business forfeit eligibility regarding Section 12E of the ITA. *"This situation has not yet occurred"*, said one participant, *"but we keep a close watch through regular assessments to confirm if they still meet all of the requirements as per Section 12E (4)"*.

Six participants reported that they have experienced an SBC disqualification. The requirements of Section 12E was cited as the main cause for disqualification. The participants referred to the requirements that a small business must satisfy in order to qualify as a small business corporation. All these requirements have been discussed in chapter two, paragraph 2.5.3.1. Five of the seven participants mentioned the shareholding requirement as one of the requirements that disqualified small businesses. One participant articulated: *“The majority of our clients are no longer eligible to be SBCs because they are either directors or shareholders of other companies”*. Three out of the seven participants mentioned the requirement of turnover as the other impediment. Moreover, two of the six participants added that the personal service requirement was an additional reason for disqualification. One participant explained:

They provide so-called personal service then they do not have the three full-time employees during the year. This means that if on 27 February one of them dies, then you don't on that same day appoint a person who may not qualify. So you actually can't just have three employees - you have to have four because a person can die, a person can resign, and you might take more than one day to replace him/her. SARS doesn't have a relief clause on that which is actually a bit of a ridiculous requirement.

According to the above evidence, there have been some cases of small business corporations in Bloemfontein who had their eligibility for Section 12E forfeited. Three of the strict requirements of the section (specifically the shareholding and turnover requirement, as well as the three-employee-requirement for companies providing personal services) have been cited as the main reasons for disqualification. The majority indicated the shareholding requirement as being problematic, followed by the problem of turnover, and lastly the three-employee-requirement for a personal service provider.

4. What motivates your small business clients to be classified as a SBC?

The question was to evoke responses on why a small business would want to be classified as a small business corporation. The response rate for Question 4 was

100% (10 out of 10 participants). All participants provided insight on why Section 12E was appealing to small businesses in Bloemfontein. According to data gathered from 7 out of 9 participants, the major benefit mentioned was tax savings as a result of reduced tax rates. One participant said: *"they [clients] will come to me and say this is their financial statements and I would give advice for Section 12E or not, and what can they do to potentially qualify for Section 12E"*. This proves that indeed small businesses who qualify for Section 12E of the ITA can save on taxes, as illustrated in the chapter two (paragraph 2.5.3.2). Lastly, according to 3 of the 9 participants, small businesses in Bloemfontein are attracted to accelerated capital allowances offered under Section 12E.

Clearly tax saving is the motivating factor behind the adherence to Section 12E for small business businesses in Bloemfontein. Moreover, the accelerated capital allowances that were mentioned by some participants led to a lower taxable income for the specific year, which resulted in tax savings.

5. How does Section 12E of the ITA, in your opinion, satisfy the following objectives?

- 5.1 Lowering the cost of tax compliance for small businesses regarding time spent and costs.
- 5.2 Creating an environment that enables small businesses to thrive.
- 5.3 Assisting the growth of small businesses.
- 5.4 Ensuring that small businesses pay lower taxes in the beginning.
- 5.5 Encouraging increased asset investment.
- 5.6 Increasing the number of jobs.

Responses elicited through this question were from 10 out 10 (100%) participants. In response to the question, one participant stated: *"On the tax tables, the tax savings are little under R100,000 per year, but this only brings the SBC into line with the individual and natural person tax bases"*. Even though the participant agreed, he/she was not convinced that SARS achieved all of its Section 12E objectives because the participant believed that one of SARS' objectives was to assist small businesses that had a flat rate of 28% in order for them to benefit from the lower bracket rates that a natural person receives. In this participant's opinion, the success of the Section 12E

is minimal because if a business owner registers in his/her own name, he/she will receive the same benefit as a small business, putting him/her on the same level as a natural person.

All remaining 8 of the 9 participants who responded to the objectives of Section 12E of the ITA strongly agreed that SARS fulfilled the purpose for small businesses to qualify for Section 12E concessions in Bloemfontein. This was because the tax savings can be re-invested in the business to facilitate upward scaling and overall expansion. Furthermore, accelerated allowances for SBCs aid in tax savings as they allow SBCs to retain revenues. In addition, SBCs can utilise the funds to recruit more employees and expand their trade activity as a result of the increased cash flow or cash on hand. Evidently all participants agreed that the tax concessions are valuable to small businesses, and they do provide relief.

6. Is the information supplied by SARS on Section 12E of the ITA easily comprehended by small businesses?

Question 6 was designed to determine whether small businesses understand the information provided by SARS on Section 12E of the ITA, and 10 out of 10 (100%) participants responded. Three of the ten (30%) participants indicated that SARS information on Section 12E of the ITA is understandable to small businesses in Bloemfontein. Two of the three participants stated that SARS publishes a detailed guide that provides comprehensible information. Further, they indicated that Google can also be used for further interpretation.

The remaining seven participants (70%) said that small businesses in Bloemfontein do not understand the information provided by SARS. One participant stated: *“It’s quite a technical one since I think the interpretation note on Section 12E is meant for tax practitioners. I don’t think small businesses would be able to use the interpretation note unless they have a financial background. They would probably need a tax practitioner to help them, as it is aimed at helping the tax practitioner understand Section 12E”*. Another participant commented that the *“Majority of small business owners do not possess an accounting background nor comprehend concepts thereof, let alone anything related to SARS. Section 12E requirements, and tax related matters*

in general, are not easily comprehended by small business owners and they rely heavily on accountants or individuals with the relevant professional knowledge”.

As discussed in chapter 2 (2.5.3.3), a concern was raised by the Davis Tax Committee regarding the difficulty in interpreting SARS documents. From the responses to Question 1 it was determined that small businesses are not aware of Section 12E, or they cannot easily understand the contents as it is not reader-friendly, or that it is meant only for tax practitioners. Clearly from the evidence there is a significant number of small businesses in Bloemfontein who do not understand the information provided by SARS on Section 12E of the ITA. This appears to be another reason why the tax concessions are underutilised.

7. How does Section 12E of the ITA help to develop small businesses?

As alluded to in chapter 2, small businesses have a significant role to play in the growth of the economy. As one of Section 12E’s objectives is to assist the growth of small businesses, Question 7 was posed to elicit information on how it assists small businesses in Bloemfontein to grow. All 10 (100%) participants responded to the question; 3 out of 10 indicated that this Section does help with business growth owing to the cash flow boost achieved from paying lower taxes. Two participants stated that the cash reserves are reinvested in the businesses, resulting in growth in operations. A participant highlighted that the growth results in the increase in operations. Only one participant gave little credit to the Section, indicating that *“very limited because 12E gives you that 100% on certain assets which you can deduct, but others are spread over 3 years. It gives you a bit less tax, but other than the initial tax break, it doesn’t really help growing the business a lot. I think it is more aimed at the beginning at lower tax rate. The findings of the DTC reports also indicate that Section 12E is not doing enough. I tend to agree because they said SARS is continuing with Section 12E until they have something better to come up with”.*

It is apparent from the aforementioned comments that small businesses who qualify for benefiting from section 12E are able to save money from paying lower taxes which in turn assist them in growing their businesses. However, consideration should be given to the scope of benefits in order to address the shortcomings and concerns as stated by the one participant.

8. Which requirements mostly disqualify small businesses as SBCs?

Section 12E was designed to govern the relief provided to SBCs under the special dispensation (SARS, 2018:6). The requirements of the Section must be satisfied before a small business can enjoy the benefits of tax concessions. Question 8 of the interview schedule was aimed at understanding which requirements mostly disqualify small businesses from benefiting from the stipulations of this Section. This question elicited a 100% response. Since varying responses were received, a thematic analysis technique was used to analyse and interpret participants' views on this question. Some participants contributed to more than one theme; that is why the number seems like more than 10 participants who responded. However, there were three prevailing reasons indicated by participants (below) that point to negative aspects of Section 12E:

- **Shareholding**

A high number of 9 out of 10 participants mentioned that the shareholding requirement had mostly disqualified small businesses in Bloemfontein from benefiting from Section 12E. In paragraph 2.5.3. of chapter two, it was indicated that the South African ITA requires shareholders or members of the qualifying entity not to own any shares or have any interest in the equity of any other company at any point during the assessment year. Therefore, the reason for disqualification results from holding shares in other companies. One participant articulated that *“the requirement for none of the shareholders or members at any time during the year of assessment of the company or close corporation holds any shares or has any interest in the equity of any other company as defined in Section 1”*.

This shareholding condition has been found to be non-viable for small businesses in Bloemfontein by most participants as not all companies that are registered become successful. Another participant stated: *“A number of small business are run by entrepreneurs who are trying a number of business opportunities until they find one that is successful. However, the SBC requirement that they should only have 1 shareholding disqualifies them from Section 12E”*. This points to the fact that just because a company is registered does not mean that it is active or successful. Some owners of small businesses

may have companies that are inactive or dormant since they are dormant. The lack of operation can be attributed to the lack of funding which leads to their business failing because they need start-up capital. Further, one participant highlighted that *“regardless of whether those shares are bringing you money, you do have them, and SARS will count them as something. And you don’t want to give your client the benefit of the doubt, then SARS comes back and asks for more information to prove that the company was deregistered”*.

Based on these responses, it can be concluded that the shareholding requirement is extremely stringent. Before the requirement was incorporated into the Section, SARS should have conducted research pertaining to small business owners to get a realistic perspective of the situation on the ground which would have informed SARS about businesses which are held by shareholders or members but are currently inactive.

- **Turnover**

As discussed in chapter 2, a qualifying entity's gross income for the year of assessment must not exceed R20 million. According to the data collected regarding this question, 5 out of 10 participants mentioned that the turnover requirement had been impossible to meet due to revenue collected from sales or otherwise. The turnover requirement was why other small businesses in Bloemfontein would have to be reclassified under the standard rate of ITA because they exceed a turnover of R20 million. In addition, participants highlighted that there are trades that quickly exceed the R20 million turnover such as those involved in transport (car sales), selling consumables, and manufacturing. One participant said that *“clients selling consumables reach the turnover very early in the financial year which closes them out from benefitting from the tax relief.”*

The National Small Business Act threshold as discussed in chapter 2 and outlined in Table 1, provides a classification for small businesses according to their total annual turnover. The prescribed total annual turnover for small businesses is between R11 million to R50 million which far exceeds the R20 million that Section 12E requires from all sectors. Despite the significant

variation in turnover, one participant responded: *“I think R20 million is quite a lot. I mean for a person who gets to make a turnover of that much deserves to be disqualified”*.

Since small businesses can qualify if the turnover maximum can be changed, most participants' remarks were different from that of the preceding participant in this regard.

Small businesses are clearly discouraged from expanding over R20 million in revenue since they will lose the advantages of tax concessions under Section 12E. Participants mentioned that because the tax savings assist small businesses in Bloemfontein to increase their cash flow, losing the tax savings would negatively impact such businesses' cash flow.

- **Personal service provider**

Two participants commented on the personal services requirement. A small business that has investment income (dividends, royalties, rents, and interest) and revenue from providing personal services should not account for more than 20% of total income noted in chapter 2. This requirement was also identified as being problematic as it disqualifies small businesses in Bloemfontein because the majority of them lack the financial means to hire the necessary number of employees to stay compliant. A participant stated that *“the personal service provision eliminates a number of companies that are small like mechanics, plumbers, lawyers and accountants”*. The reason for the elimination can be attributed to the fact that these business owners register a company in order to offer professional services. Another participant pointed out that *“it excludes a number of companies as their services are directly provided by the shareholders”*.

The Act makes an exception for such a company that employs three or more fulltime employees for 12 months in a financial year to qualify for this benefit. However, the exception has been viewed to be unrealistic by some participants since some small businesses do not have the means to pay fulltime salaries. Due to the above-mentioned reasons participants believed that the number of

employees requirement should be scrapped or relaxed to two employees in a financial year.

The aforementioned requirements of Section 12E of the ITA have been put forth as to why small businesses do not qualify for the concessions. The majority indicated that the shareholding clause was the obstacle. The second problem was the turnover condition, followed by personal service provider requirement. Most participants considered the requirements to be relatively harsh. Lastly, feedback for Question 3 revealed that the same requirements had resulted in some SBCs being disqualified from the concessions of Section 12E.

9. What were the financial reasons for small business corporations closing down in the previous five years?

Established in the first chapter of this study, small businesses were lauded as being vital drivers of growth and prosperity in South Africa, and around the world. Additionally, in chapter two it was stated that small businesses have long been seen as an important sector for development and progress in South Africa, since they play a crucial part in promoting the country's economic growth and employment targets. Also, as stated in chapter one, one of the most debilitating challenges for the development, survival, and expansion of SMEs was access to capital (OECD, 2009:3; Christensen, Hegazy & Van Zyl, 2016:15). This question was intended to determine whether there were any small businesses that could no longer operate due to limited funds.

Three participants did not provide feedback regarding this question. Of these 3 participants, 2 had experience as employees, therefore since company information must be protected, they were unable to offer their perspectives. One participant offered tax advice with no SBC clientele, so he/she could not provide feedback regarding the question. Responses to this question were supplied by 9 out of 10 participants (90% response rate). All 9 participants agreed that there were small businesses including SBCs that closed down over the past five years due to financial challenges. Five constraints which led to small business closure in Bloemfontein over the past five years were identified through the thematic analysis process from responses received

from participants. Some participants contributed to more than one theme. That is why the number seems like more than 9 participants responded.

- **First: Inadequate financial management ability**

The first constraint that was stated by two participants was the inadequate financial management ability. This constraint was articulated by two of the seven participants. One participant stated that *“they buy stuff like vehicles that does not form part of their business and restrain their cash flow”*. Financial resources should be spent on vital business transactions in order to keep the company running. When business owners waste money, it demonstrates bad financial management. A study by Kalane (2015:115) shows that poor management over cash flow causes small business failure in the Free State province.

- **Second: Inadequate available funding**

The second constraint that was highlighted by two participants was inadequate funding available for small businesses in Bloemfontein. Two of the seven participants mentioned this constraint. One participant said that there was *“no funding from banks or even investors”*. The second participant also mentioned “not having investors”, which indicated that small businesses were severely affected by the lack of funding. As discussed in chapter two, Neneh (2021) agreed that the inaccessibility to external funding affected the success of SMEs. To avoid closure, the Government and investors must collaborate to assist in funding small businesses in Bloemfontein.

- **Third: Inadequate financial resources**

Four participants responded to this challenge. As noted in chapter two section 2.6, Covid-19 had exacerbated existing challenges. According to one participant, the closure of several small businesses was due to *“going-concern issues and not making profit for an extended period of time due to the dwindling demand or bare-minimum stagnant demand”*. Based on the information gathered from three other participants, it appeared that the Covid-19 outbreak

contributed to going-concern challenges because companies were expected to close their doors temporarily in order to prevent the virus's spread. During this time, no money was made by small businesses who were unable to provide services to clients electronically, as demonstrated by a comment from a participant: "*The main thing for them closing down was Covid-19 because they just couldn't do business and there was just no income*". Two out of the four participants submitted similar views regarding this problem.

- **Fourth: Increasing bad debts, rising prices, and increased competition**

One participant mentioned the fourth constraint; that is, increased bad debts, rising prices, and more competitors entering their industries. This was evident in the literature review (Lightspeed, 2021; SME South Africa, 2020) concerning compliance costs. The importance of bookkeeping, for instance, is the opportunity it provides for management to assess and manage issues such as bad debts. Small businesses can use the bookkeeping principles to identify financial indicators that detect and alleviate the issue of bad debts, rising prices, and increased competition - before it is too late. Therefore, the inability to comply with accounting and taxation regulations due to compliance costs increases the chances of small business failure.

- **Fifth: Insufficient tax incentives**

The fifth constraint, according to one participant, was the lack of tax incentives for small businesses. The participant commented that the "*lack of tax incentives for small businesses led to small business failure*", which adds the fifth and last constraint. Evidently, despite the literature presented in chapter two (paragraph 2.5) which discusses tax concessions that were introduced for the benefit of small businesses by the South African Government, there is still a need for tax incentives for small businesses. The participant's statement signals that the tax concessions by Government are not benefiting small businesses in Bloemfontein as intended. This reinforces the significance of this study.

The information elicited via the posing of this question clarified that small business closures were primarily caused by a lack of funding and financial resources.

10. What aspects prohibit Section 12E of the ITA in fostering the success of small businesses?

This question was aimed at understanding negative aspects of Section 12E of the ITA. Two participants who provided written feedback did not provide a response to this question. Responses were received from 10 out of 10 participants. All participants were able to identify the Section's negative effects when the question was presented.

One of the participants stated: *“The shareholding requirement. A number of small businesses are run by entrepreneurs who are trying a number of business opportunities until they find one that is successful. However, the SBC requirement that they should only have 1 shareholding disqualifies them from S12E. Also, the personal service provision eliminates a number of companies that are small like mechanics, plumbers, lawyers and accountants”*. Other participants also alluded to the requirements of the Section as having a negative impact. Below is the summary of responses from participants which were analysed through the thematic method. Some participants contributed to more than one theme. That is why the number seems like more than 10 participants responded. They mentioned the following prevailing requirements:

- **Shareholding** – mentioned by 7 participants in their feedback.
- **Personal services** - mentioned by 5 participants in their feedback.
- **Turnover** - mentioned by 3 participants in their feedback.

The requirements of Section 12E of the ITA have been mentioned multiple times, even though the order is slightly different than from the responses in question 8 and question 3. In question 8 the requirements were noted as the reason why small businesses do not qualify for the section. Additionally, feedback submitted in question 3 revealed that the same requirements had resulted in some SBCs being disqualified from the benefits of Section 12E. It is not surprising that the requirements had a negative impact considering that they resulted in the disqualification of some small businesses. Apart from the strict requirements, the wide definition or unclear interpretation of Section

12E made it difficult for small businesses in Bloemfontein to understand. The Davis Tax Committee indicated that the Section is complicated and difficult to interpret, which was a view also shared by two participants.

11. In your experience, explain why (or why not) has the interpretation of professional services been difficult to comprehend or found to be vague?

The response rate for Question 11 was 100% (10 out of 10 participants). Five (5) participants were of the view that the interpretation is not difficult to understand. The other 5 participants submitted that the interpretation of professional services was difficult to comprehend. One participant commented that *“it’s open for interpretation, as SARS interpretation is quite wide. There is not much information on it, they don’t say a lot but basically all services which I can see will fall under this. One of the big complaints that service companies proffer is that some of the service companies who don’t have three employees do not qualify as SARS’ interpretation is too general. Small businesses do not have the financial muscle to challenge SARS in court”*. According to the participant small businesses in Bloemfontein who render services complain about the stipulation to have three employees.

Another participant stated: *“To most people, business is business, irrelevant of what the business is. Thus, why discriminate?”* Professional services businesses should be treated the same way as other businesses who benefit from the Section.

This meant that 50% of participants felt that the definition is vague and too general. The remaining 50% did not have any trouble understanding it. A participant also added that the unclear interpretation of professional services excludes a number of small businesses as their services are directly provided by the shareholders. In chapter 2 this has been noted as a constraint of Section 12E as confirmed by Smulders and Oberholzer (2006: 7) and Willemse (2011: 529).

Objective 2 and 3: To establish tax practitioners' perspectives on appropriate tax concessions that would benefit most small businesses, and to recommend

changes to the tax legislation to promote the effective utilisation of the tax concessions available to small businesses (Questions 12 - 17).

12. In your view, what tax concession can SARS introduce that would be effective in assisting small businesses?

The results from evidence gathered from Question 2 revealed a disturbing reality that the effort of introducing Section 12E has not been fruitful for approximately 73% small businesses in Bloemfontein since they do not comply with the criteria. One of the objectives of the Section, as noted by Koekemoer et al. (2022:22), was to foster the development of SBCs. However, that has not been the case for small businesses in Bloemfontein. Question 12 was designed to evoke participants' opinions on what tax concessions should be introduced by SARS in order to assist small businesses to grow.

Feedback was received from all 10 (100%) participants. Six participants suggested that the requirements be amended. However, none suggested that Section 12E be removed, which corresponds with the responses above that it may be beneficial to small businesses. The suggested changes that were provided by 6 out of 10 participants related to Section 12E; and so their responses will be discussed in-depth in the questions (13, 15 and 16) that follow. A recommendation that was outside the scope of Section 12E was suggested by only one participant who explained that small businesses that are registered for VAT (Value Added Tax) are required to pay it for all given invoices, even if the income has not yet been received. According to the participant's experience, small businesses who do business with public entities are often disadvantaged since it takes more than three months to receive payment for services rendered. Therefore, SBCs who deal with public entities should qualify for cash basis relief (method) in order to avoid paying VAT on income that has not yet been received.

The ITA specifies that a payment or cash basis method is only available to vendors who are natural persons which disqualifies an SBC (RSA, 1962). As discussed in chapter two, an SBC is a juristic person that is registered as either a close corporation, co-operative, private company, or personal liability company. Therefore, since an SBC

is not a natural person it does not qualify for a cash basis method for VAT purposes. Hence, the participant proposed that *“If you choose to be a small business corporation to get a tax relief then you lose the cash basis relief for VAT, and I think you should be entitled for both”*. A consideration to amend this Section would result in a significant benefit for small businesses who are caught between the choice of adhering to Section 12E or registering as cash basis vendor.

13. Explain why (or why not) SARS should consider increasing the qualifying maximum gross income of R20 million in order to be aligned with other definitions which refer to higher annual turnover for small businesses? How will the consideration impact the current compliance to Section 12E?

Question 13 was intended to assess participants' views on whether or not the turnover maximum should be increased, since it was noted in chapter 2 that the threshold was low. The response rate for this question was of 100% (10 out of 10). Out of the ten, eight participants suggested that the turnover maximum must be increased. According to two participants, the turnover maximum was too low, hence they believed that it should be adjusted upwards. A participant recommended that *“the turnover should be increased annually”*. It is known that SARS provides adjustments on an annual basis on other Sections of the Income Tax Act such as personal income tax tables in order to minimise inflation. Hence, the participant suggested adopting the same approach for Section 12E. One participant also commented that if the turnover maximum would be adjusted annually, more businesses would qualify. It was evident via responses to the above questions that when more small businesses qualify, the economy would grow. Another participant shared the same view: *“thus helping a few more businesses, might help with the growth of the economy rather than discouraging businesses to expand beyond the R20 million turnover”*. Clearly from the participant's statement other small businesses would rather keep their income at or below the R20 million mark in order not to forfeit the tax benefits available to them under Section 12E. Not surprisingly, another participant submitted that increasing the turnover ceiling will assist small businesses that were excluded due to exceeding R20 million per annum.

A comment by a participant suggested that SARS should consider applying a turnover threshold that can be linked to the shareholding requirement. For instance, a shareholder with shares in three companies whose combined turnover is below R20 million, may be allowed to qualify as an SBC in keeping to the three entities, instead of being disqualified from benefiting from the provisions of the Section, though the companies are clearly SBCs.

Contrary to the above views, two participants submitted that the turnover maximum does not need to be increased. One participant commented that “*R20 million is enough*”. The participant believed that when a small business is able to reach a turnover that is above R20 million, then it means they can generate enough income to pay taxes. Therefore, 8 participants proposed raising the current turnover requirement of R20 million.

14. Which trade did you find to fall out of scope considering the definition of personal service provider?

The question was created to understand if there are trades that fall off scope under the personal service requirement of Section 12E. This question received a response rate of 100% (10 out of 10 participants). Out of the 10 participants, 9 indicated that small businesses that render services mostly do not qualify for the concession because of the definition of personal service provider. They have noted those small businesses to be mostly small law firms, accountants, doctors and rental trading. One participant stated: “*These are small law firms where employees are minimal or non-existent, as the services are personally performed by the owner*”.

Two participants expressed their views on small businesses that fall out of the scope of Section 12E as a result of exceeding the turnover maximum. Such small businesses are within the trade of manufacturing, transport, as well as those selling consumables. This can be attributed to the National Small Business Act threshold requiring them to have a turnover of more than R20 million per annum. One participant submitted that a variety of trade qualifies for the section.

Evidently from the data gathered in response to this question there are trades that do not qualify as per the definition of personal services, and also due to the turnover maximum.

15. How can the definition of a personal service provider be amended in order to reduce the difficulty of applying for the benefits of Section 12E?

It can be concluded from the responses received in questions 3, 8 and 10 above that the personal service requirement was highlighted as one of the negatives affecting the success of Section 12E. Question 15 assisted in eliciting participants' views on how the definition can be amended in order to reduce the uncertainty for small businesses in Bloemfontein when applying for the concessions stated in Section 12E. Some participants contributed to more than one theme, that is why the number seems like more than 10 participants had responded. Responses were received from all (100%) participants. One participant submitted that there should be no change as the definition and the requirements are fair. Three participants suggested that SARS should design and write the definition clearly and unambiguously in a reader-friendly manner, such that all SMEs grasp the contents of Section 12E; the current definitions cause confusion. Another suggestion by eight participants pertained to the number of employees required; this should be reduced. One participant suggested that the number should be reduced to two employees instead of the current requirement of three employees. Another participant believed that the amendment will depend on SARS' appetite for service providers since the Section is aimed at the retail and manufacturing sectors.

Further, a participant said that SMEs did not have the "*ability to employ three fulltime employees, especially at the beginning when they need the benefit the most*". One participant, however, recommended that the requirement of having 3 fulltime employees should be totally scrapped as small firms cannot afford to employ full-time employees.

It is apparent from the above recommendations that 80% of the participants suggested amending the required number of independent employees. According to these recommendations, SARS clearly needs to amend the definition, and the requirements of personal services to relieve the burden on small businesses.

16. How can the requirement of holding shares or having a stake in the equity of other firms be amended in order to avoid discrimination?

The data gathered from this study revealed that the adherence to the stipulations of Section 12E of the ITA is significantly low in Bloemfontein as small businesses in the city do not take advantage of it. The shareholding requirement was also noted as one of the most controversial and disqualifying requirement for small businesses. Question 16 was therefore aimed at eliciting participants' opinions on how this requirement can be amended in order to accommodate small businesses who fall short of the Section's conditions due to the shareholding criterion. Two participants who submitted written feedback did not respond to the question. The response rate for this question was 100% (10 out of 10), and the thematic method was applied to analyse and interpret the responses received from the 10 participants. Some participants contributed to more than one theme - that is why the number seems like more than 10 participants responded. There were three recommendations evident from participants' responses:

- **Introduction of a threshold**

There were six participants who suggested the introduction of a threshold for the shareholding requirement. One participant's suggestion regarding Question 13 indicated that SARS should consider applying the threshold to and link it to the shareholding requirement: *"A shareholder with shares in 3 companies whose combined turnover is below R20 million is still able to qualify as an SBC in relation to the 3 entities. Rather than being disqualified from the Section even though the companies are clearly SBCs"*. According to the participant this threshold can be measured by considering the total turnover for the companies a shareholder owns (limited to 3 companies).

The second type of threshold that was suggested was one linked to the number or a percentage of shares that the shareholders of a company can hold in other companies. Additionally, it was recommended that a shareholder should at least be allowed to hold shares in two companies which is less than the suggestion of three companies made by a previous participant. Lastly, a

participant suggested that a diminishing shareholding limited to 5% ownership would be fair especially for small businesses who are farmers.

- **Removal of the requirement**

One participant stated that *“it should be totally scrapped. Having stakes in other companies does not mean they are successful in their own right”*. As alluded to in chapter 2 (paragraph 2.4) some small businesses fail between inception and the tenth year of operation. Therefore, if this amendment were to be considered by SARS, small businesses owners who hold shares in businesses that have failed, would qualify for this requirement. When more small businesses qualify, the utilisation of the section will increase

- **Amendment of the definition**

Based on the above-mentioned that some registered small businesses are becoming dormant, a participant suggested that SARS *“change the condition to shares in ‘operating’ companies”*. The amendment should only consider shareholding in companies that are operating and disregard those that are dormant.

Lastly, the participant mentioned that SARS should provide a clear interpretation of investments income in other companies (<20%) since it is currently vague. In doing so, 90% of the participants suggested that the requirement should be amended. One suggested that it should be completely removed.

17. What is your proposal for improving the success of ITA's Section 12E?

Ten (100%) participants provided feedback on Question 17. They all referred to strategies suggested previously on how the requirements and definitions/criteria could be amended. Therefore, suggestions pertaining to this question were already discussed in Questions 13, 15 and 16 above. Nine participants offered suggestions, including amending the Section requirements to be less stringent, and clarifying the definitions of each requirement. A new recommendation was received from one participant who suggested that *“we need more effective and personalised information*

sessions for business owners, a platform they can all access at any point in time where they can readily retrieve information in a manner they can understand based on their educational background". The participant's comment was meant to address the issue of awareness regarding Section 12E. Two participants had no suggestions regarding this question.

4.4 CONCLUSION

This chapter reported on the findings gleaned from the data collected from ten participants. At the inception of this study data saturation was discussed. In order to analyse and interpret the biographical data, three categories emerged: gender, length of service, and occupation. The data collected was analysed and interpreted for each question by applying the thematic analytic process such that different/similar views which were articulated by participants were categorised into themes. From the above responses it was evident that not all small businesses met the requirements of Section 12E. This implied that the objectives set by SARS is only beneficial to 27% of small businesses in Bloemfontein. There was notably still room for improvement which was confirmed by the Davis Tax Committee. This was the reason one participant believed that Section 12E has only been retained since SARS did not structure a clause to replace it. Through this study, participants recommended modifications that SARS may include to accommodate more small business.

The data gathered from the responses to questions assisted the researcher to achieve the objectives of the study. Although there are small businesses in Bloemfontein that satisfy the criteria to qualify for concessions as per Section 12E, there was still a significant number that do not, due to various reasons. Suggestions on how the Section could be amended were received from participants. In addition, recommendations were also provided on what tax concessions can be introduced to benefit small businesses. The next chapter (5) presented the conclusions and recommendations based on the findings emanating from the data collected from participants.

CHAPTER 5 CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

The aim of this study was to evaluate the extent of the utilisation of tax concessions in accordance with Section 12E of the ITA by small businesses in Bloemfontein. The tax concessions for small businesses were restricted to stipulations according to Section 12E of the ITA. A review of past studies on small businesses was conducted to examine their definitions, value to the economy, and constraints. Tax concessions in the ITA available to small businesses was also discussed. The requirements of Section 12E was analysed since the focus was on this legislation. Chapter three described the study's research methodology and the interview schedule used to acquire data from participants on the tax relief options made available under Section 12E for small businesses. In Chapter 4 a discussion was provided pertaining to the biographical data gleaned from the participants' information. Following from chapter four, chapter five outlined the conclusions extracted from the findings of the study. The outcomes are based on the literature review in combination with participants' answers to the prepared set of questions. Further, areas for prospective legislative change are identified. Lastly, guidance for future research on this topic was provided, together with the conclusion to the study.

5.2 CONCLUSIONS

The three research objectives set forth in chapter one were as follows:

- To identify challenges (and suggest solutions) that impede small businesses to take advantage of the tax concessions as stipulated in Section 12E of the ITA;
- To establish tax practitioners' views on appropriate tax concessions that would benefit most small businesses; and
- To recommend changes to the income tax legislation to promote the effective utilisation of the concessions available to small businesses.

Addressing the first objective, the findings of this study indicated a very low utilisation rate of the concessions of Section 12E by small businesses in Bloemfontein. This was based on responses received from participants on question 1, 2, 3 and 8, and the recommendations of the Davis Tax Committee (2016:5). It was evident that small businesses in Bloemfontein faced hurdles that reduced their likelihood of being eligible for Section 12E concessions. Information from this study also indicated the need for tax incentives for businesses, since its absence was a factor that contributed to the failure of some small businesses in Bloemfontein.

Regarding the second objective, the views of tax practitioners regarding appropriate tax concessions that can be introduced to benefit most small businesses were obtained. This objective was attained through posing Question 12 to respondents. The tax practitioners suggested that small businesses should be entitled to both Section 12E and cash-based relief for VAT. Currently, vendors who register under the cash-base method are natural persons, which disqualifies small business corporations since they are required to be a juristic person in order to qualify. This is supported by information supplied by the ITA no 58 of 1962 (RSA, 1962).

The third objective which was related to Question 8 of the interview schedule, indicated that the shareholding, turnover and personal service requirements generally excludes small businesses in Bloemfontein from benefiting from the Section's tax concessions. The recommendations and changes suggested by participants concerning income tax legislation indicated that SARS must relax the qualifying requirements for Section 12E which small businesses consider to be difficult to produce. This was also supported by the Davis Tax Committee (2014:19). Participants recommendations were collected through question 17 of the interview schedule. It was also recommended to relook at the Tax Administration Act No. 28 of 2011 (RSA, 2011) in order to simplify the process of compliance. This is supported by responses received for question six where 60% of the participants indicated that small businesses cannot comprehend the information provided by SARS. This finding was backed by Letlojane (2021:25). In sum, in the opinion of participants along with the literature reviewed, the utilisation of Section 12E by small businesses was low in Bloemfontein because the requirements were unrealistic, and the interpretation was difficult to comprehend.

5.3 RECOMMENDATIONS

According to the data collected and analysed in chapter four, Section 12E was valuable since it does assist qualifying small businesses to grow. These businesses are able to improve their cash flow position through accelerated capital allowances. Also, participants indicated that Section 12E allows qualifying small businesses the opportunity to reinvest tax savings into their businesses. Moreover, tax concessions available to qualifying small businesses encourage a compliance culture which benefits the Government fiscus. Unfortunately, only about 27% of small businesses in Bloemfontein benefit from tax concessions. The following recommendations are proposed:

- **The shareholding requirement is too stringent** – This requirement has been noted to be most challenging since some small business owners have shares in other companies. Nine out of ten participants suggested that the requirement be amended, while one suggested that it must be completely removed. Six participants suggested an introduction of a threshold where SARS can introduce a maximum shareholding percentage. A 10% or less shareholding in a company would be fair since the owner of those shares does not hold a significant ownership right. Further, SARS can link the shareholding with the turnover maximum in order to avoid the misuse of the Section.
- **Small businesses who offer personal service do not qualify unless they employ 3 or more employees** - 80% suggested to amend the number of employees required for easier compliance. As discussed in chapter two (section 2.5.3), Section 12E was introduced to encourage investments, economic growth, and employment creation in South Africa. Therefore, it is submitted that the suggestion by participants cannot be considered since it is not aligned to the objectives of the Section.
- **The R20 million turnover requirement was too low** – 80% of the participants suggested that the current turnover requirement of not more than R20 million should be increased. This increase will assist more small businesses to qualify for concessions as per Section 12E. Further, Table 2 outlines the pronounced difference between Section 12E and other small

business definitions. For instance, the NSBA allows up to R80 million in income, while the Section 12E only has a maximum of R20 million. This suggestion is welcomed, and SARS should increase the maximum amount and align it to that of NSBA. Also, SARS can opt to measure the maximum amount based on profit for the year, instead of turnover. The basis for the recommendation was that the profit generated in a financial year was less than the turnover received; therefore; more small business will qualify for this concession if the above recommendation is considered by SARS.

The Government has to heed the call for a simplified tax legislation process that is understood by small business owners. Outlined below are additional suggestions for improvements that were identified by the researcher subsequent to the literature review, as well as interview responses from participants:

- Increase marketing campaigns in order to improve awareness of Section 12E tax concessions.
- Provide tax educational hubs for small businesses that will offer personalised services to small business owners since not all of them have accounting and taxation knowledge.
- Conduct research to better understand the world of small businesses which will assist in aligning their definition with other Acts or legislation governing small businesses.
- Revise the qualifying criteria as the requirements are perceived to be difficult to meet.

5.4 SIGNIFICANCE OF THE STUDY

Small businesses play an important role in the economy of the country, and on a global scale. As a result, it is critical to ensure that these businesses are functional and protected in order for the country to continue to benefit from their contributions. More than a decade ago, Muneer Hassan, a tax leader at the South African Institute of Chartered Accountants, challenged then Finance Minister Pravin Gordhan to provide concessions for small businesses since they were the backbone of the

country's economy (Temkin, 2010:59). It is thus imperative to conduct research on whether the existing small business tax concessions assist whom they were intended for. This research sought tax practitioners' opinions on whether or not the tax concessions were of benefit to small businesses. Additionally, the participants' input on suitable tax concessions which can benefit the majority of small businesses, was considered. Further, the study was conducted to evaluate if available tax concessions in South Africa stimulate small business growth. The data gathered confirmed that tax concessions as per Section 12E have a positive influence on wealth generation, the economy, and employment opportunities.

As a matter of urgency, SARS and Government policymakers should seriously consider the research findings to amend Section 12E in order to promote small businesses to grasp opportunities to access tax concessions, not only in Bloemfontein, but also across the country. In addition, the most critical challenges those small businesses in Bloemfontein experience were revealed. Other researchers in similar fields can utilise the findings as secondary data.

5.5 LIMITATIONS OF THE STUDY AND POSSIBLE FUTURE RESEARCH

This research was conducted to emphasise the importance of complying to Section 12E of the ITA. Since the research findings of this study focused on tax practitioners who assist small businesses in Bloemfontein with income tax compliance, the findings cannot be generalised to apply to all tax practitioners and small businesses in the city. Further studies could elaborate and delve incisively into this topic to obtain tax practitioners' views nationwide.

Due to time-constraints, the researcher was unable to contact all small businesses in Bloemfontein, nor all on the list availed by the IRBA, resulting in largely selecting tax practitioners from the city's accounting firms who had the time to assist. Research can be conducted across all relevant professional bodies in order to cover a larger scale of small businesses.

Lastly, research could possibly be done to evaluate the operating status of companies owned by small business owners/directors which will assist SARS to make suitable modifications to the shareholding requirement.

5.6 CONCLUSION TO THE STUDY

This study focused on the utilisation of tax concessions as per Section 12E of the ITA by small businesses in Bloemfontein. It obtained the opinions of tax practitioners in Bloemfontein on how Section 12E can be amended in order to best suit small businesses. It was evident from the study's results that the tax concessions provided by Section 12E of the ITA were not exploited by a number of small businesses in Bloemfontein due to strict requirements that were difficult to meet. Thus, the positive contribution of the Section 12E as intended by SARS was limited as not all small businesses benefited from the tax concessions. Therefore, Section 12E should be amended and simplified in order to increase utilisation and comprehension by small businesses in Bloemfontein.

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APPENDICES

APPENDIX A: INTERVIEW SCHEDULE

<p>To evaluate the extent of the utilisation of tax concessions in accordance with Section 12E of the ITA by small businesses in Bloemfontein.</p> <p>To identify challenges (and suggest solutions) that impede small businesses to take advantage of the tax concessions as stipulated in Section 12E of the ITA</p>	
Question Sequence	Interview Question
Question 1	In your view, are small businesses aware of the contents of Section 12E of the ITA?
Question 2	How many of your clients fall into the small business corporation category?
Question 3	Have any of your clients that were registered as SBCs been deregistered from being classified as a SBC? If so, explain why.
Question 4	What motivates your clients or small businesses to choose to be classified as SBCs?
Question 5	<p>How does Section 12E of the ITA, satisfy the following objectives?</p> <ul style="list-style-type: none"> • Lowering the cost of tax compliance for small businesses regarding time spent and costs; • Creating an environment that enables small businesses to thrive and grow; • Assisting the growth of small businesses;

	<ul style="list-style-type: none"> • Assuring that small businesses pay lower taxes at the beginning; • Encouragement of increased asset investment; and • Increasing the number of jobs created.
Question 6	Is the information supplied by SARS on Section 12E of the ITA easily comprehended by small businesses? Elaborate.
Question 7	How does Section 12E of the ITA promote the growth of small businesses?
Question 8	Which requirements mostly disqualifies small businesses in qualifying as SBCs?
Question 9	What were the financial reasons for small business corporations closing down in the previous five years?
Question 10	When considering Section 12E of the ITA, what aspects have a negative impact in fostering the success of small businesses?
Question 11	In your experience, explain why (or why not) has the interpretation of professional services been difficult to comprehend or found to be vague?
<p>To establish tax practitioners' views on appropriate tax concessions that would benefit most small businesses</p> <p>To recommend changes to tax legislation to promote the utilisation of concessions for small businesses</p>	

Question 12	In your view, which tax concession can SARS introduce that would be effective in assisting small businesses?
Question 13	Briefly explain why (or why not) SARS should consider increasing the qualifying maximum R20 million turnover of small businesses? How will this consideration impact the current usage of the Section?
Question 14	Which trade did you find to fall out of scope in the definition of personal service provider?
Question 15	How can the definition of personal service provider be amended in order to reduce difficulty when applying to qualify for concessions related to Section 12E?
Question 16	How can the requirement of holding shares or having a stake in the equity of other firms be amended in order to avoid discrimination?
Question 17	What is your proposal for improving the success of the ITA's Section 12E?

APPENDIX B: REQUEST FOR PERMISSION TO CONDUCT RESEARCH



REQUEST FOR PERMISSION TO CONDUCT RESEARCH

Dear *Insert institution/organisation's contact person's title and name*

I am / We are doing research and would like to request permission to conduct our research at *Insert institution/organisation's/company's name*.

DATE

Date of research project

TITLE OF THE RESEARCH PROJECT

Insert the title of research project.

PRINCIPLE INVESTIGATOR / RESEARCHER(S) NAME(S) AND CONTACT NUMBER(S):

<i>Name of student/researcher</i>	<i>Student number</i>	<i>Contact number</i>
<i>Name of student/researcher</i>	<i>Student number</i>	<i>Contact number</i>
<i>Name of student/researcher</i>	<i>Student number</i>	<i>Contact number</i>
<i>Name of student/researcher</i>	<i>Student number</i>	<i>Contact number</i>

FACULTY AND DEPARTMENT:

Name of Faculty
Name of Department

STUDYLEADER(S) NAME AND CONTACT NUMBER:

Name of Study Leader (UFS staff member)
Contact number

WHAT IS THE AIM / PURPOSE OF THE STUDY?

Explain the aim of the study and why you are conducting the study?

WHO IS DOING THE RESEARCH?

Identify yourself and explain who you work for and/or why you are doing the project.



APPENDIX C: RESEARCH STUDY INFORMATION AND CONSENT FORM



RESEARCH STUDY INFORMATION LEAFLET AND CONSENT FORM

DATE

Date of the research project

TITLE OF THE RESEARCH PROJECT

Insert the title of the research project. Simplify if necessary

PRINCIPLE INVESTIGATOR / RESEARCHER(S) NAME(S) AND CONTACT NUMBER(S):

<i>Name of student/researcher</i>	<i>Student number</i>	<i>Contact number</i>
<i>Name of student/researcher</i>	<i>Student number</i>	<i>Contact number</i>
<i>Name of student/researcher</i>	<i>Student number</i>	<i>Contact number</i>
<i>Name of student/researcher</i>	<i>Student number</i>	<i>Contact number</i>

FACULTY AND DEPARTMENT:

Name of Faculty
Name of Department

STUDY LEADER(S) NAME AND CONTACT NUMBER:

Name of Study Leader (UFS staff member)
Contact number

WHAT IS THE AIM / PURPOSE OF THE STUDY?

Explain the aim of the study and why you are conducting the study?

WHO IS DOING THE RESEARCH?

Identify yourself and explain whom you work for and/or why you are doing the project.

HAS THE STUDY RECEIVED ETHICAL APPROVAL?

This study has received approval from the Research Ethics Committee of UFS. A copy of the approval letter can be obtained from the researcher.

Approval number: *Insert approval number*

WHY ARE YOU INVITED TO TAKE PART IN THIS RESEARCH PROJECT?



APPENDIX D: GHREC ETHICS APPROVAL (SIGNED)



GENERAL/HUMAN RESEARCH ETHICS COMMITTEE (GHREC)

22-Nov-2022

Dear Ms Namhla Mathai

Application Approved

Research Project Title:

Evaluation of income tax concessions available to small businesses in Bloemfontein.

Ethical Clearance number:

UFS-HSD2022/0857/22

We are pleased to inform you that your application for ethical clearance has been approved. Your ethical clearance is valid for twelve (12) months from the date of issue. We request that any changes that may take place during the course of your study/research project be submitted to the ethics office to ensure ethical transparency. Furthermore, you are requested to submit the final report of your study/research project to the ethics office. Should you require more time to complete this research, please apply for an extension. Thank you for submitting your proposal for ethical clearance; we wish you the best of luck and success with your research.

Yours sincerely

Dr Adri Du Plessis

Chairperson: General/Human Research Ethics Committee

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APPENDIX E: SUMMARY OF RESPONSES TO INTERVIEW QUESTIONS

Question Sequence	FIRMS				INDIVIDUALS			
	Participants (out of 8)	RESPONSES			Participated (out of 2)	RESPONSES		
Question 1	8	3 Yes	5 No	-	2	2 No	-	-
Question 2	7 (One participant does consulting services. They assist other firms who have small businesses with tax advice).	5 utilisation less than 50% (15%, 30%, 2%, 16%, 10%)	2 utilisation less than 80% (65 and 75)		Two participants had no experience in this regard; in their personal capacity.	-	-	-
Question 3	8 (Some participants contributed to more than one theme. That is why the number seems like more than 8 participants who responded).	5 Shareholding	2 Personal services; 3 Turnover	2 Not occurred	Two participants had no experience in this regard; in their personal capacity.	-	-	-
Question 4	8	7 Tax saving	1 Accelerated capital allowances	-	2	2 Accelerated capital allowances	1 Tax saving	-
Question 5	8	8 Yes (for SBs that qualify as SBCs)	-	-	2	2 Yes	-	-

	FIRMS				INDIVIDUALS			
Question Sequence	Participants (out of 8)	RESPONSES			Participated (out of 2)	RESPONSES		
Question 6	8	2 Yes	6 No	-	2	1 Yes	1 No	-
Question 7	8 (1 participant contributed to more than one theme. That is why the number seems like more than 8 participants who responded.)	2 Tax savings re-invested; 3 More profit	3 More cash on hand (cash flow)	1 No	2	1 Increase in operation	1 More profit	-
Question 8	8 (Some participants contributed to more than one theme. That is why the number seems like more than 8 participants who responded).	8 Shareholding	4 Turnover	-	2	1 Shareholding	1 Turnover	2 PSP

Question Sequence	FIRMS				INDIVIDUALS			
	Participants (out of 8)	RESPONSES			Participated (out of 2)	RESPONSES		
Question 9	7 (1 participant does consulting services. They assist other firms who have small businesses with tax advice. Some participants contributed to more than one theme. That is why the number seems like more than 7 participants who responded.)	2 Inadequate financial management	1 Inadequate available funding	4 Inadequate financial resources	2	1 inadequate available funding	1 Insufficient tax incentives	1 No experience in this regard.
Question 10	8 (Some participants contributed to more than one theme. That is why the number seems like more than 8 participants who responded).	6 Shareholding	3 PSP	3 Turnover	2 (One participant contributed to more than one theme. That is why the number seems like more than 2 participants responded.)	1 Shareholding	2 PSP	-
Question 11	8	4 Difficult (Broad and not clear)	4 Not experienced to be difficult	-	2	1 Difficult (Broad and not clear)	Not experienced to be difficult	-
Question 12	8	4 Amend requirements	4 No suggestion of tax concessions.	-	2	2 Amend requirements	-	-

Question Sequence	FIRMS				INDIVIDUALS			
	Participants (out of 8)	RESPONSES			Participated (out of 2)	RESPONSES		
Question 13	8 (1 participant contributed to more than one theme. That is why the number seems like more than 8 participants who responded)	5 Increase (More SB will qualify)	3 Increase (Current max is too low)	1 Do not increase (Current max is sufficient)	2	1 Do not increase (Current max is sufficient; rather use it as shareholding threshold)	1 Increase (More SB will qualify)	-
Question 14	8 (One participant contributed to more than one theme. That is why the number seems like more than 8 participants who who responded.)	5 PSPs fall off (3 Law firms, 1 Accountants, 1 Doctors)	2 Non-PSPs fall off (2 Manufacturing, 1 Transport, 1 Retail)	1 A variety qualifies; 1 business is business, why discriminate?	2	1 PSPs fall off (Law firms and Accountants)	2 Non-PSPs fall off (Rental income trading)	-
Question 15	8 (One participant contributed to more than one theme. That is why the number seems like more than 8 participants who responded.)	6 Amend number of employees (Make it fewer)	1 Do not amend requirement (Requirement is fair)	2 Clarify interpretation	2 (One participant contributed to more than one theme. That is why the number seems like more than 2 participants	2 Amend number of employees (Make it fewer)	1 Clarify interpretation	-

		FIRMS			INDIVIDUALS			
Question Sequence	Participants (out of 8)	RESPONSES			Participated (out of 2)	RESPONSES		
Question 16	8	4 Amend, make it less stringent. (Introduce threshold)	1 Amend definition to disregard shareholding in dormant companies.	1 Remove the requirement; 2 Amend (not sure how it must be changed).	2	2 Amend, make it less stringent (Introduce threshold)	-	-
Question 17	8 (One participant contributed to more than one theme. That is why the number seems like more than 8 participants who responded.)	5 Amend requirements (Make it less stringent)	4 Clarify interpretation and advertise; 1 Introduce a personalised info hub for SBs	1 Did not have a suggestion	2	1 Introduce threshold	1 Did not have a suggestion	-