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SCHOOL OF ACCOUNTANCY

University of the Witwatersrand, Johannesburg

Faculty of Commerce, Law and Management

A Comparative Study of Tax Relief Measures for Small, Medium and Micro-sized Enterprises in South Africa and other Developing Countries

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Abstract

This study aims to examine the tax relief measures for small, medium, and micro-sized enterprises (SMMEs) in South Africa compared to other BRICS nations. The study further seeks to present to the policymakers in South Africa, proven and authenticated options for tax relief, similar to those adopted by other developing nations. This will assist the government in exploring feasible and effective strategies that can be included in the tax legislation of South Africa to alleviate the tax burden on SMMEs, thus promoting growth in the economy of South Africa.

SMMEs play a crucial role in the economic development of countries worldwide, in that they create jobs that reduce unemployment, lessen poverty, and contribute positively to a country's GDP (Aucamp, 2010). According to Statistics South Africa, in 2022, the country reported an unemployment rate of 33.9% in quarter two, with the unemployment rate for the youth at 46.5% in the same quarter. The youth remain susceptible to unemployment in the country, which increases dependency on the government and indirectly contributes to the high crime rate in South Africa. There is, therefore, a great need for the government of South Africa to support SMMEs with the purpose of positively impacting the nation's economic development.

The impact of COVID-19, load shedding, and high interest rates are some of the challenges the SMME sector faces, putting the sector on the verge of collapsing. It is of paramount importance that the government of South Africa relook the currently existing tax relief measures in favour of SMMEs in order to relieve the sector from the economic factors adversely impacting it. The implementation of this measure will not only prevent the downfall of SMMEs, but also foster their growth, potentially aiding in combatting the country's unemployment crisis.

From the literature review, it was found that there is currently no global definition of SMMEs. Every country applies its definition based on factors and circumstances specific to one country. The consensus, however, is that, despite the absence of a common definition of SMMEs, these entities contribute significantly to the economic growth and GDP of each country. The BRICS nations, in particular, have recognised this fact and have adopted several tax relief measures in the quest to support the development and sustainability of smaller businesses.

Based on the evaluation of tax relief measures available in South Africa, compared to those offered in other BRICS nations, the study found that tax relief measures available in South Africa support only small and micro businesses. The requirements are stringent, resulting in few businesses qualifying for the incentives. The relief measures further support more formal businesses and have less regard for informal businesses. There are no specific tax incentives for informal SMME businesses in the rural areas where most of the unemployed population of South Africa are situated. There is thus a lack of support for the development of the rural economy. Furthermore, there is a lack of support for medium-sized businesses and those seeking to elevate to larger-scale businesses.

Keywords: tax-relief measures, SMMEs, tax system, effective tax rates, BRICS

Declaration

I hereby declare that this research report is solely my independent effort. It is being submitted to attain the Master of Commerce - Taxation qualification from the University of Witwatersrand, Johannesburg. It has not been previously presented for any other degree or evaluation at any other institution of higher learning.

Tshepiso Mphafudi

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List of abbreviations and acronyms

Abbreviation and acronym	Description
CNY (¥)	Chinese Yuan
GDP	Gross Domestic Product
Lakh	A unit in the Indian numbering system equal to one hundred thousand
MSME	Medium, Small and Micro Enterprise
PTS	Patent taxation scheme
R	South African Rand
R$	Brazilian Real
RMB	People's currency (Chinese)
Rs	Indian Rupees
RSA	Republic of South Africa
SARS	South African Revenue Services
SME	Small to Medium-sized Enterprise
SMME	Small, Medium and Micro-sized Enterprises
STS	Simplified tax scheme
TSAP	Taxation scheme for agricultural producers (a unified agricultural tax)
US$	United States Dollar
UTPA	Unified tax on imputed income for a particular type of activity

Chapter 1: Introduction

In this world of globalisation, SMMEs play an imperative part in the growth of economies for countries worldwide. They are key contributors to almost all major industries in the business world. SMMEs create jobs, which alleviate unemployment and poverty and contribute positively to a country's GDP (Cant and Wiid, 2017). According to Statistics South Africa, in 2022, the country reported an unemployment rate of 33.9% in quarter two, with youth unemployment rate at 46.5% in the same quarter. These results prove that South African youth continue to be susceptible to unemployment and poverty, which increases dependency on the government and indirectly contributes to the high crime rate in South Africa. There is, therefore, a great need for the government of South Africa to support SMMEs to ensure that the economic growth of the country is positively impacted. For SMMEs to thrive, the government should revise its tax system to incorporate efficient and effective tax relief measures to enable the establishment, development, and growth of developing businesses.

South Africa's 2021 tax statistics reported that approximately 39.1% of the tax revenue is contributed through personal income tax and only 16.4% through company income tax. There is a great concern that the contribution by companies within South Africa is significantly below personal income tax. According to tax statistics reported by the South African Revenue Service in 2021 (SARS, 2021), the 2019 tax statistics reported 18.1% which is indicative of a decrease compared to 16.4% in 2020/21. According to tax statistics, the 16.4% contribution is also below the topmost contribution of 26.7%, achieved before the 2008/09 financial crisis.

The 2021 tax statistics further reported that 812,306 companies were assessed on 30 September 2021, for the 2019 assessment year. Within the overall examined, only 24.0% of the companies declared a positive taxable income. Further, of the total 812 306 companies, 48.3% had a taxable income of Rnil and the other 27.7% had a negative taxable income resulting in assessed losses. This could be indicative of lower corporate profits from companies struggling with different economic challenges as well as tax evasion by companies that feel overburdened.

The impact of COVID-19, load shedding, and high interest rates are some of the challenges the SMME sector is facing, putting it on the verge of collapsing. The South African government had previously implemented tax relief measures to support SMEs and combat the impact of COVID-19 on businesses. These included the introduction of tax subsidies amounting to R750 monthly for private sector employers with employees earning below R6 500 and the delay of 35% of pay-as-you-earn (PAYE) liabilities without penalties. These relief measures were however, temporary, although the impact of COVID-19, coupled with other economic challenges such as load shedding had a dire long-term impact on SMMEs.

The BRICS alliance comprises nations with prominent developing economies, namely Brazil, Russia, India, China, and South Africa. These countries find themselves at a crucial crossroads regarding their economic viability and growth, and it is crucial for them to prioritise the sustenance of growth within their individual economies to tackle poverty. The 2018 data on global GDP reveals that the BRICS nations collectively contributed a notable 22% to the overall output. (Wang and Zhang, 2019)

In 2010, the countries contributed 25.7% to the GDP with China leading with a contribution of 13.6%, followed by India with 5.5%, Russia with 3%, Brazil with 2.9%, and South Africa coming last with a contribution of 0.7%. China is in the lead with its fast-growing economy followed by the other countries; however, South Africa remains at the tail end with minimal improvement in its economic performance that remains below its potential. (Arroio and Scerri, 2014)

Among the BRICS countries, China boasts the most swiftly advancing economy. In the previous two decades, the Chinese economic landscape has experienced rapid and sustainable growth, and this significant achievement has been predominantly attributed to the flourishing small, medium, and microenterprise sector. These enterprises, which represent a staggering 99% of all commercial ventures in China, have played a crucial role in contributing to about 60% of the country's GDP. (Xiangfeng, 2007). During 2007, the 99% contribution was significantly made by small enterprises accounting for 98% (2,327,969), and only 1.78% (42291) was contributed by medium-scale enterprises. (Xiangfeng, 2007)

In India, an important part of the economy is constituted by micro, small, and medium-sized enterprises (MSMEs), which include khadi and village/rural enterprises (Jahanshahi, Nawaser, Khaksar, and Kamalian, 2011). This sector contributes immensely to the country's industrial production, exportations, the elevation of employment rate, and the creation of an entrepreneurial base. (Jahanshahi, *et al*, 2011). The MSME has played an important role since the independence of India in growing the GDP and developing the economy as a legacy of Gandhian philosophy (Jahanshahi, *et al*, 2011).

Upon India attaining its independence after British colonialism, the policymakers, politicians, and intellectuals took a stand to help villages and small industries to be independent once again – to undo the setbacks endured during colonisation (Bagchi, Rao, and Sen, 2005). This protection of the small-scale sector was emphasised in the Industrial Policy Statement. It was included in the government's industrial policy framework, explicitly stating that the objective of government policy is to guarantee that decentralised sectors develop enough strength to sustain themselves independently. (Bagchi, *et al*, 2005). The main drivers of this policy were to encourage an increase in employment rate and dispersal of industrial activities across regions - ensuring wide distribution of economic growth to avoid overcrowding in urban areas and to have self-supporting villages (Bagchi, *et al*, 2005).

About 36 million MSMEs have generated approximately 80 million employment opportunities, which contributed around 8% of the GDP and about 33% of the total manufacturing output in India (Mohan and Ali, 2018).

On the other hand, SMMEs across South Africa have encountered considerable obstacles in achieving satisfactory levels of prosperity. One of the most significant contributing factors to this underwhelming outcome has been identified as the convoluted and expensive process of complying with tax requirements, a pressing concern that has been highlighted by both the SARS and the National Treasury as an issue that warrants immediate attention. (Naicker and Rajaram, 2019). Many of the start-ups in South Africa fail to develop into bigger, sustainable, and established entities. Excessive compliance burden is one of the contributing factors to the declining success rate of businesses. (Naicker and Rajaram, 2019). Tax compliances are the biggest components of all compliance costs, with VAT being the most complex for small businesses. (Naicker and Rajaram, 2019)

The World Bank Group through its initiatives has also recognised the importance of the SMMEs through its initiatives. (Ayyagari, Beck, and Demirguc-Kunt 2003). The previous year, the World Bank Group approved about $2.8 billion to support SMMEs. (Ayyagari, *et al.* 2003). This showed an increased recognition of the role played by this sector in maintaining the recovery of regional and global economies. (Ayyagari, *et al*. 2003). There is limited research to back the policies supporting this sector. (Ayyagari, *et al*. 2003)

This research work intends to make contributions as follows: By far, there are limited studies covering a comparison of policies adopted by the BRICS nations. This study will be one of the few to cover that subject and the first to cover the comparison of tax relief measures within these nations. This study employs a more comprehensive and inclusive approach, distinct from other studies that solely concentrated on evaluating measures exclusively found within South Africa or those that only compared South African measures with those of a single nation. Prior to this, no comprehensive analysis has been

conducted to assess the tax relief measures that are currently in place for SMMEs within the BRICS nations.

A recent study was undertaken by the University of Pretoria, South Africa in 2013, which focused on the evaluation of tax alleviation strategies for small enterprises within the country. (Stols, 2013). Another separate and distinct research was undertaken in 2010 to delve into the realm of tax alleviation strategies for SMMEs in both South Africa and Australia, with the quest to conduct a comparative analysis between the two nations. This study defined SMMEs in South Africa and Australia, followed by a comparison of the tax relief options for these businesses in both countries. (Aucamp, 2010)

Furthermore, another study conducted was limited to the evaluation of the South African simplified tax scheme, turnover tax system, which mainly focuses on one part of the South African measures to relieve tax burdens available to SMMEs (Schutte and Labuschagne, 2019). The studies undertaken in the previous years have brought to light a significant deficiency in the exploration of supplementary tax alleviation strategies that could potentially be utilised in the South African environment.

It is abundantly evident that South Africa can acquire a plethora of lessons from various nations to guarantee the expeditious and enduring development of its economy. The focus of the research will be on the tax alleviation measures adopted by the BRICS countries to support businesses within the SMME sector in their respective countries.

Based on the observations identified in this introduction, it is essential to conduct this research to assist South Africa in enhancing the growth of SMMEs by observing tax alleviation measures adopted in the BRICS nations. This will provide a point of reference to tax policymakers and enable them to evaluate the feasibility of adopting some of these measures in South Africa.

1.1. The statement of the problem

Over half of the country's labour force is employed in the private sector (Aucamp, 2010). Considering the prevailing economic hurdles and the alarming levels of joblessness in South Africa, it is crucial for the government to provide robust assistance to the SME sector through the implementation of well-planned and efficient tax alleviation strategies. It is, thus, essential to evaluate the diverse tax relief measures adopted by South Africa against what is currently being adopted by other developing countries in order to evaluate measures that are available for South Africa to explore.

1.1.1. The sub-problems

The first sub-problem is to identify tax relief measures currently available to the South African SMMEs sector.

The second sub-problem is to compare tax relief measures that are available to SMMEs in South Africa against measures adopted by Brazil, Russia, India, and China.

This research report evaluates the different tax relief measures adopted by South Africa against those currently adopted by other BRICS nations to identify measures that are available for South Africa to explore.

1.2. Purpose statement

The focal point of this investigation is to analyse and contrast the tax relief strategies available to SMMEs in South Africa in comparison to those available in developing nations such as Brazil, Russia, India, and China. In addition, this study seeks to appraise and identify the most feasible and workable options that the South African government can potentially employ to facilitate and empower the development and prosperity of SMMEs.

1.3. Research method

The nature of this study will be qualitative. The primary sources for the analysis will be South African tax legislation, previous literature, and journal articles. The research will be a literature review that will

involve an exhaustive and scrupulous review of past literature and journal articles, delving into the intricacies of tax alleviation options specifically catered to the needs of SMMEs. Moreover, this research endeavour will delve deeply into the measures currently employed within the tax regulations of South Africa, with the explicit purpose of constructing a theoretical construct that can serve as a foundation for this scholarly pursuit. The study will further perform a contrast of tax relief measures adopted in South Africa and those that have been adopted in other BRICS nations. The legislation of each country will be examined to determine the criteria and factors that classify an enterprise as an SMME.

The scope of the research is limited to the options obtainable within the nations of Brazil, Russia, India, China, and South Africa. Entities that do not fall within the parameters of SMMEs shall be omitted from the research study, given that the primary emphasis is placedon the investigation of tax alleviation strategies specifically designated for small, medium, and micro enterprises.

1.4. Underlying assumptions

An assumption is "a condition that is taken for granted, without which the research project would be pointless". In this research, we assume the definition of SMME applied will be in accordance with that country's specific criteria to define SMME.

The following concepts share the same description and might be used interchangeably:

- small, medium, and microenterprise (SMMEs)
- micro, sand medium-sized enterprises (MSME)
- small and medium-sized enterprise (SME)
- small-scale enterprise
- small business
- small entity
- microbusiness

The use of the word measure may be assumed to refer to tax measures unless otherwise clarified. Unless explicitly stated otherwise, the phrases tax relief and tax alleviation may be interchanged.

1.5 Overview of chapters:

Chapter 1 of this research delves into the intricate details of its background and purpose, furnishing readers with a comprehensive understanding of the subject matter at hand. In addition, a comprehensive overview of the problem statement, purpose statement, research approach, and underlying assumptions is meticulously provided.

The second chapter defines the concept of an SMME through the lens of South African tax legislation. Furthermore, the chapter provides a comprehensive overview of the measures currently in place to foster the development of SMEs in South Africa, while also offering a thorough explanation for the adoption of said measures.

The third chapter of the literature expounds upon the intricate and multifaceted nature of the SMME in Brazil, a country known for its thriving and dynamic business landscape. It meticulously dissects the criteria that have been meticulously utilised to precisely delineate and categorise the SMME sector within this unique setting. Furthermore, it expounds upon the comprehensive and well-crafted measures that Brazil has put in place to bolster the growth and development of these enterprises, while also providing insight into the impetus behind the adoption of such measures.

Progressing to Chapter 4, the focus will shift towards a comprehensive examination of the SMME term, with careful consideration given to the various criteria that are applied within the Russian context. Furthermore, this study will aim to elucidate the measures that Russia has adopted along with the underlying motives that drove their adoption.

The prime emphasis of the fifth chapter lies in examining the measures that have been put into effect in India, with special attention given to comprehending the definition of SMMEs in accordance with the Indian perspective. Moreover, this chapter shall explicate in great detail the multifaceted measures implemented by India and elucidate the underlying reasoning behind their implementation.

Our exploration in Chapter 6 centres on the measures that have been adopted in China, specifically targeting the segment of small and medium enterprises. Additionally, the author will elaborate on the diverse array of relief measures that are currently accessible to SMEs in China while also delving into the underlying motives that have prompted the implementation of these measures.

In the seventh chapter, the study assesses and thoroughly compares the various relief strategies available to small and medium-sized enterprises (SMEs) in the BRICS nations.

Chapter 8 outlines a comprehensive examination of the various courses of action that South Africa has at its disposal. This final chapter serves as a concise recapitulation of the research findings and makes recommendations for future avenues of study.

Chapter 2: South Africa

This chapter outlines the concept of the SMME as defined through the lens of South African tax legislation. Furthermore, it provides a comprehensive overview of the measures currently in place to foster the development of SMEs in South Africa, while also offering a thorough explanation for the adoption of said measures.

2.1. Definition of SMME: South African perspective

The starting point of this chapter is to define SMME in the context of South Africa and related income tax legislation. For a company to qualify for tax relief specific to SMME, it will have to first meet the criteria identified for SMME. Policymakers, academics, and authors, at both community and national levels, apply the definition of SMMEs differently, which may create inconsistencies. (Berisha and Pula, 2015). The deficiency of a universal characterisation of what institutes an SMME is one of the challenges deterring the development of a cross-country analysis of SMME data (Berisha and Pula, 2015).

The OECD also confirmed the difficulty experienced in applying one definition of SME in different regions globally. Different descriptions and criteria for SMMEs are adopted to design policies in relation to different types of taxes in different systems and countries. (Aucamp, 2010). However, the language mainly used for the definition of SMMEs is numbers. While the qualitative characteristics can certainly differentiate them from other scales of businesses, quantitative criteria are used mostly because of their dimensional classification. (Berisha and Pula, 2015)

The definitions of SMMEs vary across borders owing to a multitude of factors that impact how these enterprises are perceived and categorised. (Cant, 2016) Different countries apply diverse criteria such as employment, sales, or investment to evaluate what qualifies as SMMEs. The criteria could further extend to tax liability, type of entity, type of industry, or international transactions. (Berisha and Pula, 2015). In South Africa, SMMEs are characterised by the National Small Business Act 102 of 1996 as businesses with 100 employees or fewer staff. (Cant, 2016)

The World Bank utilises three quantitative metrics to describe SMMEs, which include employee count, overall assets, and annual sales. To classify as an SMME, an entity must meet specific quantitative benchmarks for both staff count and at least one financial metric. (Berisha and Pula, 2015). It is a commonly accepted notion that there is no singular, unanimously approved interpretation for SMME in the business world. Every country applies criteria suitable for its policies and overall objective. (Cant, 2016)

For this reason, the definition of an SMME is bound to vary between tax legislations and policymakers in different countries.

The following concepts are clearly outlined according to the income tax laws in RSA:

"Small, medium, or micro-sized enterprise" means any -

"(*a*) person that qualifies as a micro-business as defined in paragraph 1 of the Sixth Schedule; or
(*b*) any person that is a small business corporation as defined in section 12E (4);

The following concepts are notable:

- Micro-business
- Small business corporation
- Small business" (income tax, sec. 1)

2.2. Tax relief measures adopted in South Africa

2.2.1 Micro-business

On 1 March 2009, the South African government introduced a turnover tax system for micro businesses aimed to promote entrepreneurship by reducing the time and cost of submitting tax returns. (Aucamp, 2010). The aim was to support the development of SMEs by reducing the tax burden. This was further to grow the country's economy and alleviate unemployment and poverty. This initiative aligns with the government's larger objective of promoting entrepreneurship and establishing a supportive ecosystem for the sustainability and growth of small businesses. (SARS, 2009)

A prerequisite for an entity to be classified as a micro business is the maintenance of a qualifying turnover below R1 million for the year of assessment – apportioned for several months in operation if less than 12 months. In addition to legal entities, the micro-business designation applies to both living and deceased individuals and the estates of individuals who were registered as micro-businesses prior to their demise or financial insolvency. Qualifying turnover refers to the entire turnover generated through business operations, except for capital gains and tax-exempt amounts. (Income tax, 6th schedule)

The main purpose of the turnover tax system is to simplify tax processes for microenterprises, enabling them to meet their tax duties. This tax scheme supersedes income tax, capital gains tax, provisional tax, VAT and dividends tax. (SARS, 2022). However, from 1 March 2012, the registered microbusiness can continue trading as a VAT vendor should they believe it is in their best interest to do so (Stiglingh, Koekemoer, van Heerden, Wilcocks, & van der Zwan.,2023). Under the guidelines of the turnover tax system, eligible small entities are required to file two interim returns and a final return for assessment. (SARS, 2009). For a normal entity, the taxpayer has an obligation to pay three provisional tax payments before the submission of the final return for assessment. This leads to substantial reductions in both time and expenses associated with the existing provisional tax, income tax, and VAT structure, which mandates businesses to file an average of 10 returns per year.

As revealed by an independent research investigation commissioned by SARS and the National Treasury, it is approximated that small enterprises expend an average of R7 000 per annum to satisfy the requisite measures of preparing, submitting, and finalising tax returns encompassing income, provisional, VAT, and employees' tax. (SARS, 2009)

With the exclusion of investment returns, any proceeds obtained or accrued by a micro business through its business ventures within the country shall be exempt from gross income. (section 10(1)(zJ) of income tax). All amounts accrued or received by the business will, therefore, not be subjected to income tax, but turnover tax. The current corporate income tax rate in South Africa, applicable for years of assessments concluding on 31 March 2024, is 27%.

For the 2023/34 year of assessment, the turnover tax is determined by multiplying the tax rate by the taxable turnover for the year of assessment as follows:

Table No. 2.1: Turnover tax for 1 March 2023 – 29 February 2024 year of assessment (SARS, 2022)

Taxable turnover (R)	Rate of tax (R)
1 – 335 000	0% of taxable turnover
335 001 – 500 000	1% of taxable turnover above 335 000
500 001 – 750 000	1 650 + 2% of taxable turnover above 500 000
750 001 and above	6 650 + 3% of taxable turnover above 750 000

In accordance with regulations, a registered micro business's taxable turnover includes 50% of all receipts of a capital nature obtained from the sale of immovable property principally utilised for

business purposes. This does not include stock used for trading or any other asset primarily utilised for business purposes, except for financial instruments and investment income. (except for foreign and local dividends) in the case of a company.

Microbusinesses that opt for this tax regime are still required to comply with the employee related levies such as pay-as-you-earn, skills development levies, and unemployment insurance contributions as these are taxes borne by employees and collected on behalf of SARS by employers (Stiglingh et al.,2023). The microbusinesses have an option to elect to pay the amounts deducted or withheld in relation to the levies during the six-month periods of the year within 7 days after the end of those periods.

The effective tax rate for entities qualifying as microbusinesses has, therefore, been significantly reduced by the government of South Africa as it is way below the 27% currently being paid as corporate tax. (Stiglingh et al.,2023)

"An entity would not qualify as a micro business in a year of assessment if the entity or its shareholders has an equity interest in another company, except shares or interests in a:

- company that is listed.
- portfolio in a collective investment scheme.
- body corporate.
- share block company.
- social co-operative, consumer co-operative, or co-operative burial society if all trading income is exclusively obtained from its members and the interest is less than 5%.
- friendly society.
- venture capital company; or
- primary savings co-operative bank or primary savings and loans co-operative bank only providing banking services and the interest is less than 5%;". (Aucamp, 2010)

Moreover, a company would not be classified as a microenterprise if a significant portion exceeding 20% of its turnover, originates from investment returns and revenue generated through the provision of professional services. The enterprise must not be a labour broker or personal service provider (unless they have an exemption certificate). The maximum revenue generated from selling capital assets used for business purposes is limited to R1.5 million within a three-year timeframe, and all shareholders of the business possess the status of natural persons, and the conclusion of the entity's fiscal year falls on the final day of February. (Aucamp, 2019)

2.2.2 Small business corporation

In 2001, the government implemented a tax relief policy for small business corporations to promote the growth of small businesses by reducing their tax burden. (Income Tax Act, s12E) This support initiative has been designed to address the issue of unemployment and promote a more balanced allocation of wealth through the creation of sustainable employment prospects and strengthening the turnover of the small business sector. (Income Tax Act, sec. 12E)

The Income Tax Act's Section 12E (4) (a) defines small business corporations as follows:

- The small business should be a close corporation or co-operative or a private company as defined in section 1 of the Companies Act or a personal liability company as contemplated in section 8 (2) (*c*) of the Companies Act.
- The gross income for the year of assessment must not exceed the amount equal to R20 million (apportioned for months in operation where the small business was not in operation for a full month).
- The total receipts and accruals and all capital gains of the company, close corporation, or co-operative consisting collectively of investment income and income from the rendering of a

personal service do not exceed 20%. Personal service means service in a specialised field of actuarial science, accounting, auctioneering, information technology, architecture, auditing, consulting, education, engineering, broadcasting, management, financial service, broking, draftsman-ship, health, journalism, valuation sport, real estate broking, law, research, surveying, translation, or veterinary science, where the service is provided personally by the owner and the enterprise does not have more than three full-time employees.

- The entity is not a personal service provider.
  The objective of the tax relief is to support small businesses that create jobs and contribute positively and greatly to the gross domestic product. The requirements in relation to personal service providers were included to ensure that this objective was met.
- During the year of assessment, all the shareholders or members in that company, cooperative, close corporation, or personal liability company must be natural persons throughout the year of assessment and should not hold shares in other private companies or have members' interest in any other company, co-operative, close corporation or personal liability company. (Income Tax Act, sec. 12E, ss 4(a)

  Large entities used to take advantage of the loopholes in the requirements to benefit from the SME tax benefit. They would separate an amount into smaller portions to pay lesser taxes. Consequently, an edict was established dictating that the shareholders or constituents of the entity shall not possess shares or any form of ownership in the capital of another company. (Aucamp, 2010)

  The following exceptions apply concerning the shareholding or member's interest:

  - The shares are held in a listed company.
  - Associated with a portfolio that qualifies as a collective investment scheme.
  - The shareholding is not more than 5% of the holding in a cooperative burial society or consumer or social co-operative
  - Cordial society
  - Primary savings co-operative bank or primary savings and loans co-operative bank solely offering banking services, and the interest is less than 5%.
  - A capital investment company
  - Close corporation, company, or co-operative if the entity had not traded in that year and owns assets that do not have a market value that exceeds R5 000.
  - Close corporation, company, or co-operative is in the process of deregistering, liquidating, or winding up.

Tax implications

Taxpayers who qualify as small business corporations according to the established criteria in the manufacturing industry or similar industry are allowed to claim wear and tear as a tax deduction in full for plant and machinery provided that:

- The taxpayer purchased this in terms of an instalment credit agreement.
- The asset is being used for the first time by the taxpayer (excluding mining or farming operations)
- The taxpayer uses the asset directly in a manufacturing process carried on by the taxpayer. (Section 12E (1) or 12E(1A) of the Income Tax Act.)

This specific tax relief measure targets manufacturing companies as they are likely to create more jobs. In South Africa, the manufacturing industry remains fundamental to GDP growth, directly impacting employment while other industries follow to create employment influenced by the growing demand that flows from a growing economy. This industry is therefore the key driver of rapid GDP growth and associated alleviation of poverty through job creation.

The aforementioned deduction would not extend to assets obtained without any form of consideration. (Practice Note 9 of the Income Tax Act).

In 2005, section 12E (1A) was introduced, which allows for the full deduction of any machinery, plant, implement, utensil, article, aircraft, or ship in respect of which a deduction is allowable under section 11 (*e*) (wear and tear) – which was acquired by the small business corporation in a formal, finalised agreement.
The taxpayer can opt to apply section 11(e) (where writing off will be allowed over a specific number of years depending on the type of asset) or to deduct an amount over three years with 50% of the cost of the asset being deducted during the year in which it was brought into use, 30% deducted in the first succeeding year and 20% in the second succeeding year. This deduction would not apply to assets acquired for no consideration (Practice Note 9 of the Income Tax Act).
The table below summarises the above-mentioned tax relief. The SBC's tax burden lessened through the early deduction of capital assets costs which reduced the taxable amount.

Table 2.1 Summary of section 12E deduction for SBC and non-SBC:

No.	Legislation	Type of entity	Write-off period
1	Section 12E (1)	Small business corporation (manufacturing industry)	Year 1 – full cost
2	Section 12E(1A)	Small business corporation (any industry other than the manufacturing industry)	Year 1: 50% Year 2: 30% Year 3: 20% Or apply section 11(e) and write off over the period determined in the Practice Note 47
3	Section 12C	Non-SBC (manufacturing industry)	Year 1: 40% If new or unused (20% if not new or unused) Year 2-04: 20%
4	Section 11(e)	Non-SBC (any industry other than the manufacturing industry)	Deduct the cost over the write-off period determined in Practice Note 47

2.2.3. Small business

The classification of small businesses according to the tax laws in South Africa emanates from paragraph 57(1) of the Eighth Schedule of the Income Tax Act. It is defined as a business that has assets with a total market value of no more than R10 Million. (Income Tax Act, Eighth Schedule, para 57)

Capital gains tax relief

Where an individual or a special unit trust disposes of their asset, the Eighth Schedule of the Income Tax Act requires that the person include capital gains in their taxable income at an inclusion rate of 40%. (maximum effective tax rate on capital gains is 18%). For companies, the Eighth Schedule requires that capital gains be included at an inclusion rate of 80%, which gives an effective tax rate on capital gains of 21.6%. In terms of paragraph 5, an individual and a special trust are entitled to an annual exclusion of R40 000 per year.

The purpose of the annual exclusion is to lessen compliance costs and provide for a more simplified tax administration by not considering trivial capital gains and losses. This would then benefit small businesses operating as sole proprieties, as the owner is directly liable for tax, thus the individual tax requirements would apply to it. (Income Tax Act, Eighth Schedule, para 57)

In terms of section 01 of the Income Tax Act, a special trust is considered a trust, created solely to assist a specific person with a severe physical disability or mental illness, considering that the person does not have the ability and capability to earn sufficient income to survive.

The provisions of paragraph 57 were included to afford tax relief to individuals who invest their funds in small businesses to prepare for retirement. The disposal of the business contributes to the market and ensures the continuity of the business by the interested parties. (Income Tax Act, Eighth Schedule, para 57). These benefit the economy as the small business will create employment and contribute to the GDP. The tax incentives are offered to small businesses that sell off an active asset related to their operations. An operational and active asset may include immovable property used to carry on a trade and movable property held solely and used in the process of carrying on a trade. (Income Tax Act, Eighth Schedule, para 57)

Thus, assets classified as active in a business context will not encompass financial instruments or those that produce income through royalties, currency exchange profits, or annuities.

This tax benefit is accessible to the individuals listed below:

- A person who owns a sole proprietor business and meets the criteria for a small business.
- A person who is in a partnership business which meets the criteria for small business; and
- An individual with a 10% or more ownership stake in an enterprise that meets the criteria for being classified as a small business.

The following are the conditions applicable to the tax relief:

- The aggregate capital gain that may not be allowed during a person's lifetime is not more than R1.8 million.
- The person must have reached 55 years of age unless the sale is due to ill health, death, superannuation, or other infirmity.
- The person disposing must have been actively and substantially involved in the day-to-day running of the business for a consecutive period of 5 years.

All capital gains qualifying for the relief must be realised within a 24-month period starting from the date of the first disposal.

If a person has more than one interest in a partnership, an interest of more than 10% of the equity of a company or owns multiple sole proprietaries, which qualifies as a small enterprise, and the total market value of all the businesses is over R10 000 000, the person will not qualify for the tax relief. (Income Tax Act, Eighth Schedule, para 57)

There is further capital gains tax relief available for microbusinesses as defined by the Income Tax Act. The provisions of this relief are in paragraph 57A of the Eighth Schedule of the Income Tax Act. The relief allows for the capital gains/losses realised by a micro business upon disposal of an immovable property (to the extent that it was used for carrying on trade) to be disregarded. Further, it allows for the capital gains/losses realised by a micro business upon disposal of a movable property used for carrying on a trade to be disregarded. The capital gains or losses from the movable property may be disregarded in full. (Income Tax Act, Eighth Schedule, para 57A). This relief measure was introduced to provide simplification on the Turnover Tax System concerning capital gains. (Aucamp, 2019)

The above provides evidence of tax relief specifically provided to SMMEs in relation to capital gains tax. The annual exclusions provide compliance cost savings for the SMMEs, as well as the administration work and time that would have been spent ensuring compliance.

2.2.4. Skills development levy relief

In section 3 of the Skills Development Levies Act, all employers are obliged to pay 1% of their employee's pay towards the skills development levy. Section 4(b) of the Skills Development Levies

Act, however, provides that an employer with an annual remuneration expense of no more than R500 000 is exempt from the duty to pay the levy. This relief was introduced to limit the compliance burden of small enterprises with payroll expenses below R500 000, considering the complexity of the skills development levy, and to relieve the entities from the compliance cost. There has been an acknowledgement that the exemption aided the economic environment of SMMEs. (Aucamp, 2010).

2.2.5. Value-added tax relief

Value-added tax relief: registration

It is mandatory to register for VAT if the entity has, for 12 consecutive months, income that exceeds or is likely to exceed R1 million. (VAT Act, s23)

For this reason, a small enterprise with taxable supplies that are less than R1 million does not need to register for VAT and is thus not liable to pay VAT and submit VAT returns.

Micro businesses are not required to register for VAT (VAT Act, s23(8)). This is to lessen their burden , considering the administrative burden that comes with record keeping for VAT compliance purposes. VAT is a consumption-based tax and requires continuous record-keeping, which makes it the most difficult tax to adhere to. (Aucamp, 2010).

VAT relief: accounting basis

The VAT Act allows VAT registration on an invoice or a payment basis. VAT is accounted for at the earlier of receipt of the invoice or payment for the supplies.

Accounting for VAT on a payment basis means that the tax is accounted for when a payment is made or received. The invoice basis means that the vendor is liable to pay over the tax even when they have not received the funds as yet. The VAT Act requires that if a vendor on a payment basis sells supplies of more than R100 000, the vendor needs to account for that particular supply on an invoice basis. This makes the vendor immediately liable for VAT and does not need to wait for payment before accounting for the VAT. (VAT Act, sec. 15(2A))

This provision ensures that, where the vendor has significant transactions, they are able to immediately account for the corresponding significant VAT. This provision was included in the VAT Act to avoid a purchaser claiming a full refund on a significant transaction, but the vendor not accounting for VAT, which could lead to planned VAT refunds. (Aucamp, 2010)

The VAT Act allows natural persons (sole propriety) or an unincorporated body of persons with members comprising only natural persons to register on a payment basis. The enterprise registering on a payment basis should not be taxable supplies exceeding R2, 5 million for 12 consecutive months. (VAT Act, sec. 15(2) (b))

From the above, it is clear that small businesses (sole proprietors) are allowed to register on a payment system which will lessen the cash flow burden of having to account for VAT while still awaiting cash flow. A small business with taxable supplies of less than R100 000 will not have to account for VAT on an invoice basis.

VAT relief: tax periods

Vendors are required to submit VAT returns depending on the category they fall within, which has specific requirements. The categories are classified into categories A to F and have specific VAT return periods.

The first category is A. It has a two-month period, which ends on the last day of January, March, May, July, September, and November (Section 27(1) of the VAT Act). Vendors not falling within Category C, D, E, or F, fall within Category A. (VAT Act, sec. 7(2))

The second category is B. It also provides for a two-month period, which ends on the last day of February, April, June, August, October, and December (VAT Act, s27(1)). Entities not falling within Category C, D, E, or F, fall within Category B. (VAT Act, sec. 27(2))

The third one is Category C. This category only applies to enterprises with taxable supplies of over R30 million for 12 months. (VAT Act, 27(3)). The category requires that returns be submitted on the last day of each month. (VAT Act, sec. 27(1))

Category D accounts for VAT return every six months. The returns are submitted on the last day of February and August. (VAT Act, 27(1)). This category applies to farmers with taxable supplies not exceeding R1.5 million for 12 months. (VAT Act, sec. 27(4))

The fifth category is Category E. This category offers a 12-month period, which ends on the last day of the vendor's financial year-end (VAT Act, s 27(1)). This category is for vendors (companies and trust funds) whose trade consists exclusively of the renting of fixed property, movable goods, or the administration or management of connected persons.
The connected persons referred must be persons who are registered for VAT and must be allowed to deduct the VAT amount in full. The tax invoices must be issued, and payments must all be made at the end of the year. (VAT Act, sec. 27(4A))

Vendors with no more than R 1.5 million of taxable supplies fall within Category F. (VAT Act, sec. 27(4B)). This category allows for a four-month period that ends on the last day of June, October, and February (VAT Act, s27(1)). SMMEs, by their nature, would fall under this category which allows for less submission of VAT returns than normal. This further reduces the administrative burden and compliance cost consequence on SMMEs. (Aucamp, 2019)

Record-keeping relief
Section 73A of the Income Tax Act requires that a taxpayer carrying on a trade must maintain full records relevant to their VAT returns submitted. The records must be retained for a period of five years at a minimum.
The following are the records that are required to be retained:

- List of stocks
- Invoices
- Cheques that have been paid
- Bank records.
- Cheque book
- Books of accounts
- electronic representations of information
- General journals
- Cash books.

Paragraph 14 of the Sixth Schedule in the Income Tax Act requires that micro businesses retain the following information:

- Records of received amounts,
- Records of declared dividends,
- Records of assets with a cost price over R10 000; and
- Records of liabilities exceeding R10 000.

The administrative burden on the part of microbusiness has been lessened. This reduces not only the compliance burden but also the costs associated with the storage of information.

2.2.6 Relief on advance tax rulings

Chapter 07, sections 75 to 90 of the Tax Administration Act, 2011, governs the advance tax ruling system. It is essential for the interpretation of certain tax transactions, either those that already took place or those that are proposed to one or more parties. There are three types of advance tax rulings, namely, a binding class ruling, a binding private ruling, and a binding genus ruling.

A binding class ruling: This ruling is issued by SARS in relation to applying a specific tax act to a specific 'class of people' in respect of a proposed transaction. (SARS, 2023)

A binding private ruling: This ruling is issued by SARS regarding applying a specific tax act to one or more persons with respect to a specific transaction or a proposed transaction. (SARS, 2023)

A binding general ruling: This ruling is issued by a senior SARS official regarding the application or interpretation of a specific tax act regarding the stated facts and/or circumstances. (SARS, 2023)

A normal application fee for a binding class ruling or a binding private ruling is R10 000, however, small business corporations are only charged R2 500 if they apply for an advanced tax ruling.

2.2.7 Venture capital companies

The government of South Africa adopted a tax incentive regime that indirectly supports SMMEs by providing incentives to investors. The aim is to support SMMEs and junior mining explorations to have access to equity. The investors that provide equity finance to the enterprises through a venture capital company (VCC) are incentivised.

Effective from 01 January 2009, investors in venture capital companies are entitled to a deduction from their taxable income equivalent to amounts incurred when they acquired VCC shares. From 2019, investments by companies have been capped at R5 million and for trusts or individuals, they have been capped at R2.5 million per year. The deductions are further not subject to recoupment upon the sale of VCC shares if the shares were held for more than 5 years.

For a company to obtain a SARS approved VCC status, it needs to meet the following preliminary requirements:

- The company must be a resident of the Republic of South Africa,
- The objective of the enterprise should be solely to manage investments in companies that qualify (i.e. investees).
- The company must be compliant with the tax legislation; and
- The company is mandated to secure a license in accordance with section 8(5) of the Financial Advisory and Intermediary Services Act, 2002.

Although South Africa has recognisable tax relief benefits for SMMEs, it is currently challenged with a thorn of tax evasion, which is counter-productive to the country's economic growth. Tax evasion results from individuals or businesses that deliberately avoid paying their taxes. Tax evasion practices widen wealth inequality, along with weakening consumer purchasing power, thus adversely affecting the economy, including a decrease in government revenues. To effectively realise the benefits of providing tax relief on its economic growth, the government needs to build effective systems that reduce tax evasion. Additionally, the government need to use the revenue from tax collected more efficiently and curb wastage so that more individuals can be encouraged to pay taxes. The more tax evasion, the less revenue collection, resulting in limited opportunity to provide more tax relief for developing small businesses. (Richmond, K. Mncwango, A, 2022).

Conclusion: South Africa

The country has various tax relief measures aimed at supporting and promoting SMMEs. The turnover system as one of the relief measures, aims to simplify tax processes for micro businesses for them to meet their tax obligations. Under the guidelines of the turnover tax system, eligible small entities are required to file two interim returns and a final return for assessment. (SARS, 2009). For a normal entity, the taxpayer has an obligation to pay three provisional tax payments before the submission of the final return for assessment. This leads to substantial reductions in both time and expenses associated with the existing provisional tax, income tax, and VAT structure, which mandates businesses to file an average of 10 returns per year. The turnover tax system further provides a tax table applicable only to

qualifying micro businesses, which provides for significantly lower effective tax rates compared to normal businesses.

The small business corporation tax regime is another relief measure that provides for early deduction of capital costs for specific capital assets, reducing the tax burden of qualifying small businesses in the earlier years of operations. This regime aims to encourage the development of small businesses and create a more equitable distribution of wealth. It is aimed at benefiting manufacturing companies which are likely to create more jobs.

Qualifying small and micro businesses in South Africa further enjoy the benefits of annual exclusions on capital gains tax, exemption from skills development levy, registration of value-added tax and record-keeping relief in terms of paragraph 14 of the Sixth Schedule. The South African government thus has existing tax relief measures to provide compliance cost savings for the SMMEs and reduce the administration work and time that would have been spent to ensure compliance. The effectiveness of these measures in stimulating economic activities, attracting foreign direct investments and creating jobs is fundamental. The government will need to equally develop systems that curb tax evasion in order to ensure that those eligible to pay tax are doing so adequately to support the economic growth of the country. While developing businesses are being supported through tax relief, eligible businesses, including large corporations, must play their part to support the economy through the payment of tax.

The next chapters proceed to evaluate tax incentives offered by other BRICS nations to assess their competitiveness, and whether there are additional incentives that South African government may adopt to further benefit its SMME sector.

Chapter 3: Brazil

This chapter expands upon the intricate and multifaceted nature of SMMEs in Brazil, a country known for its thriving and dynamic business landscape. It meticulously dissects the criteria utilised to precisely delineate and categorise the SMME sector within this unique setting. Furthermore, it expounds upon the comprehensive and well-crafted measures that Brazil has put in place to bolster the growth and development of these enterprises while also providing insight into the impetus behind the adoption of such measures.

3.1. Definition of SMME: Brazil's perspective

Without a universally accepted definition of SMMEs, policymakers in different countries would consider specific quantitative characteristics and certain qualitative characteristics to define an SMME in their country's context. (Viega and McCahery, 2019)

In Brazil, different organisations, e.g. the Institute for the Support of Micro and Small Firms (SEBRAE), have assumed criteria for measuring the size of the firm based on the number of staff employed in the organisation. (Viega and McCahery, 2019). On the contrary, the Brazilian Development Bank and Brazilian policymakers use volume of sales as the criteria for measuring the size of the firm. (Viega and McCahery, 2019)

The SME is defined by Brazil using three main categories: micro-proprietorship, microenterprise, and small enterprise. (Viega and McCahery, 2019). Micro-proprietorships are entities with total revenues below R$ 81,000, while microenterprises are entities with gross revenues not exceeding R$ 360,000, and small enterprises are those with gross revenues not exceeding R$ 4,800,000. (Viega and McCahery, 2019). Consistent with earlier studies, Brazil's SMME portfolio mainly comprises microenterprises and small firms, reflecting the prevalence of these types of businesses in developing economies. The distinct groups of SMEs in Brazil possess distinct functions within the economy, influenced by disparities in resource and information access. Many of these firms operate within the food and lodging, construction, services, and commerce industries. (Viega and McCahery, 2019)

3.2. Tax relief measures adopted in Brazil

3.2.1. Simples Nacional Program

SMMEs play a crucial role in the Brazilian economy, as they account for substantial levels of production and aid in regional development and income redistribution. However, they have a high mortality rate due to internal, external, and sectoral factors. (Sereno, Saiani, and Ribeiro, 2022).

Brazil's tax regime is characterised by a multitude of separate tax impositions. Compliance costs are notably elevated for indirect taxes, which primarily include value-added tax and municipal taxes on various services. Since the tax levied by the state regarding the distribution of commodities and services in Brazil follows an origin-centric model rather than a destination-centric model for inter-state transactions, Brazilian states have entered into competitive tax scuffles to attract producers by extending preferential tax treatments. (Arnold J, 2011)

In addition, Brazil's tax system is known for its high taxation of labour income, sometimes surpassing 50% (OECD, 2009b). To this point, advancements in tax reform have been restricted, notwithstanding the prevailing acknowledgement of the necessity for reform (Arnold J, 2011). Approval for multiple practical packages has been stalled in Congress over fears of increased taxes and disagreements on revenue allocation among local jurisdictions (Arnold J, 2011).

Bureaucracy and administrative procedures have been identified as some of the factors that create burdens and influence the growth of SMMEs. These concerns led to about 11.5 million enterprises adopting the special tax regime for smaller-scale enterprises in Brazil provisioned under Complementary Law No. 123/06 (Simples Nacional Program). (Viega and McCahery, 2019) The reduction of tax burden saw increases in payroll by about 25% and about a 21.5% upsurge in work opportunities for companies that participated in the scheme. (Viega and McCahery, 2019). This showed

that adopting a simplified strategy is essential for the advancement of SMMEs within a developing country with high tax compliance costs.

Most Western countries have differentiated tax treatment for small and micro-sized entities, as they might be a dynamic game changer in job creation and a source of GDP growth. (Franco, Sampaio B, Sampaio G and Vaz, 2017). The aim of the differentiated tax treatment is to impact an entity's operations and endurance, particularly the new ones in the market. (Franco, *et al*., 2017).

Simples Nacional Program (Simples) is a special tax system (simplified tax system) adopted by Brazil's Federal Revenue (RFB) to promote tax burden reduction and simplification for SMMEs. (Franco *et al.*, 2017). This tax system is considered the most generous regarding revenue limits that guarantee eligibility to the system (Franco, *et al.,* 2017).

In the United States, the revenue limit for a company to stay in the simplified tax system is US$48 0000 per annum, US$121 000 in Canada, and US$114 000 in the United Kingdom whereas in Brazil the revenue limit for continuing at Simples Nacional is US$1 million. (Franco, et al, 2017). This figure is substantial, especially when juxtaposed with other emerging nations such as Argentina (US$48 000), Colombia (US$60 000) and Mexico (US$148 000). (Franco, *et al,* 2017)

The implementation of this system dates back to 1996 and was initially considered a financial motivator for the formalisation of small and informal enterprises. It was also regarded as a vessel to combine the multiple tax incentives afforded to small firms. The program further aimed to not only reduce informality but also promote employment with SMEs. The system is optional for firms opting to enrol. (Franco, *et al.,* 2017)
The system allows companies to collect about six different taxes using a single document, with simplified calculations and payments operating by applying a tax rate on the entity's total revenue. (Franco, *et al.,* 2017)
The following taxes and contributions were considered (Franco, *et al.,* 2017):

- Legal entity income tax (IRPJ)
- Social contribution on net profits (CSLL)
- Social integration program and civil servant patrimony formation program (PIS/PASEP)
- Contribution for the financing of social security (COFINS)
- Industrial products tax (IPI)
- Employer contribution for social security (INSS).

The calculation method, base for calculation, and payment date for the abovementioned six taxes were unified, resulting in a considerable reduction in the time spent and cost incurred by entities in complying with tax obligations. (Franco, *et al.,* 2017). The tax amount to be paid is dependent on the company's gross annual revenue as well as the economic activity performed. Progressive rates were applied on different revenue bands (nine) which meant that the higher the revenue, the higher the tax rate. (Franco, *et al.*, 2017)

The tax rates ranged between 3% and 5% of annual total revenue for micro enterprises and 5.4% and 7% for small enterprises. The qualification for the simplified tax system regime depended on the economic segment that the enterprise falls within and the applicable annual revenue limit. The limit for micro enterprises was R$120 000 and R$720 000 for small enterprises until 2002 (Fajnzylber, Maloneyc and Montes Rojas, 2009).

The Simples was modified in 2006 from Simples Federal by Law 123/2006, which saw the establishment of the Simples Nacional Program, which came into effect from 01 July 2007 (Franco, et al, 2017). The new system was composed of the State Tax on Circulation of Goods and Services (ICMS) and the municipal tax on Services of Any Nature (ISS) (Franco, *et al.,* 2017). Under this system, qualifying companies pay, in one document, state, federal, and municipal taxes and contributions. The rates applied depend on the sector in which the company operates in (Franco, *et al.,* 2017).

In terms of micro and small companies tax and contribution payment integrated system (SIMPLES) under the Simples Nacional Program, a micro enterprise is considered a legal entity or an entrepreneur with gross revenue not exceeding R$240 000 and the small business ranges between R$240 000 and R$ 2 400 000. (Franco, *et al.,* 2017)

Simples Nacional reformed the classification of the enterprises with reference to the revenue in 2011 and 2014 through Laws 139 and 147, respectively (Franco, et al, 2017). New taxation tables were designed to include the new gross revenue requirements, which were primarily used to determine eligibility for the regime. The tables included a significant number of activities, particularly in relation to the service sector. (Franco, *et al.,* 2017).). The reformed tables reduced prohibitions that were previously put on some economic segment,s, which significantly reformed the regime. The alterations to the classification of enterprises (micro/small) resulted in six tables for taxation and 20 ranges of revenue which cover a number of economic activities within the service sector, commerce industry, etc. (Franco, *et al.,* 2017)

Through data analytics, it was discovered that there was a significant increase in the number of establishments implementing the simplified regime. The numerical figures exhibited a 40% increase during the period of 2000-2005 in comparison to those reported by the non-adopters, amounting to 4.1%. The period saw the creation of around 500,000 new establishments, with a majority being small (less than nine employees). This was partly due to the implementation of the simplified regime. (Franco, *et al.,* 2017))

Using Simples resulted in eligible firms experiencing a maximum 8% reduction in their tax burden. In addition to that, Simples also enabled the substitution of a relatively minimal and fixed proportion of total revenues for the traditional payroll allocation, resulting in a notable decrease in labour expenses, thus fostering a compelling motivation to recruit new staff members and/or formalise current labour affiliations. (Fajnzylber, *et al.,* 2009)

The goal of the tax cuts implemented by Simples was to help small, labour-intensive businesses without highly skilled workers better compete with bigger companies for which hefty tax obligations are more sustainable owing to economic scale.

Simples, nonetheless, explicitly omitted all activities requiring the engagement of professionals with regulated occupations as prescribed by law from being eligible for the program. Moreover, organisations that had been formally incorporated were disqualified from using Simples, as well as government or foreign enterprises and other enterprises within specific sectors including real estate, financial services, etc. (Fajnzylber, *et al.,* 2009)

In August 2011, the criteria for participation in the simplified tax regime were adjusted from yearly earnings of R$2.4 million to R$3.6 million (Arnold J, 2011). In the study conducted by Sereno et al. 2022, it was discovered that the Simples Nacional Tax Regime generated an average monthly reduction in the bankruptcy rate of MSEs of 1.38%, which suggests that the regime reduces the failure rate of MSEs.

3.3. Conclusion: Brazil

Brazil implemented the Simples Nacional Program, a simplified tax system which is aimed at promoting tax burden reduction and simplification for SMMEs. This tax system is considered the most generous with regard to revenue limits that guarantee eligibility to the system. The revenue limit for a company to stay in the simplified tax system in Brazil was adjusted from R$2.4 million to R$ 3.6 million in August 2011.

Bureaucracy and administration burdens impacting the growth of SMMEs were further noted as some of the motivations behind the adoption of the tax regime. However, the objective of the adoption was to provide an economic incentive for formalisation of small and informal enterprises. It is no wonder

that activities requiring the engagement of professionals with regulated occupations, as well as government and foreign companies, have been excluded from eligibility to the regime.

The system allows companies to collect about six different taxes using a single document, with simplified calculations and payments operating by applying a tax rate on the total revenue of the entity. The calculation method, base for calculation, and payment date for the six taxes were unified, resulting in a considerable reduction in the time spent and cost incurred by entities in complying with tax obligations. (Franco, et al)

From the literature reviewed, it became apparent that Brazil might not be offering a variety of tax incentives or the existing incentives are not sufficiently covered in literature. Nevertheless, the adoption of the Simpless Tax Regime has proven to have had success factors for SMMEs. This included eligible firms experiencing a maximum 8% reduction in their tax burden. Further Simples enabled the substitution of a relatively minimal and fixed proportion of total revenues for the traditional payroll allocation, resulting in a fixed reduction in labour costs, which promoted a need to recruit new employees and formalise current labour laws.

Furthermore, the tax regime generated an average monthly reduction in the bankruptcy rate of MSEs of 1.38%, which suggests that the regime reduces the failure rate of MSEs. Between 2000 and2005, 500,000 new establishments were registered and studies suggest that this is partially owing to the adoption of this new system.

The complexity and cost of tax compliance for SMMEs were raised by SARS and the National Treasury as one of the contributing factors to the declining success rates of businesses. (Naicker and Rajaram, 2019). Considering the number of informal businesses in South Africa and the extent of tax evasion by businesses that are not registered with SARS, a review of the current simplified tax system may be one of the considerations that the South African government make to motivate businesses to register for tax – by further simplifying the compliance process and reducing tax burdens. Although SA has an existing simplified tax system (turnover tax system), its effectiveness, and the extent of the impact on the SMMEs' compliance and cost burden might need to be evaluated.

Chapter 4: Russia

This chapter's objective is to outline the definition of SMME in the context of Russia and identify criteria considered for defining SMME. The chapter further details the tax relief measures adopted by Russia and the motivation behind the adoption of the measures.

4.1. Definition of SMME: Russia's perspective

The success of an SMME may be affected by various internal and external factors of the business. External factors, which are developments outside the entity's control may impact the success of the entity even more significantly. Various studies have shown that tax compliance is one factor that impacts the growth of small and medium enterprises resulting in cost increases. (Klychova, Fakhretdinova, Klychova and Antonova, 2015)

The Russian Federation defines small entrepreneurship in terms of the federal law of 14 June 1995 on 'State Support of Small Enterprises in the Russian Federation'. The definition includes individual enterprises and small enterprises with industry-specific employment limits identified as the main characteristic to identify small and medium enterprises. (Radaev, 2001)

The following employment levels of an enterprise are considered to qualify as small and medium enterprises (Radaev, 2001):

Table: 4.1 Employment levels

No.	Sector	No. of employees
1	Industrial production and construction	100
2	Transport	100
3	Agriculture	60
4	Non-production activities	50
5	Wholesale trade, retailing, services	30
6	Science and technology	60
7	Others	50

The Federal Law further specified that for an enterprise to be considered a 'small enterprise', the share of the enterprise equity capital owned by federal subjects, religious and public associations, as well as charity foundations are no more than 25% (Radaev, 2001). Legislative acts and prominent data-gathering instruments in Russia do not explicitly outline the parameters of medium-sized enterprises. (Radaev, 2001)

The enterprise should not be owned by state municipal unitary enterprises and must not be fiduciaries to assets of a wide community of outsiders, such as credit unions, banks, share funds, insurance companies, etc. (Klychova, *et al*, 2015)

Furthermore, the enterprise should not have its debt and equity instruments listed on the open market and should not be trading with debt and equity instruments on the stock exchange. The operations of the enterprise should not be primarily associated with leasing, and the enterprise should not be obligated to issue and report financial statements to a wide range of stakeholders. (Klychova, *et al*, 2015)

4.2. Tax relief measures adopted in Russia

The Russian Federation introduced the law on tax holidays and preservation of tax conditions for 2015-2018 (Barhatov and Belova, 2015). Before this adoption, the government had introduced the tax on property, which was calculated based on the property value of the entity (Barhatov and Belova, 2015). To calculate this, they used the simplified taxation scheme and another taxation scheme in the form of a unified tax on input income for a particular type of activity (UTPA). Before this, the enterprises were exempt from property taxes. (Barhatov and Belova, 2015)

Further local sales levies were introduced for individual enterprises and small commercial enterprises in the significant federal cities, namely Saint Petersburg, Moscow, and Sevastopol. The aforementioned duty shall be levied upon minor retail establishments and individual entrepreneurs who do not adhere to the patent tax regime. Businesses falling under the category of small and medium-sized enterprises and implementing a patent taxation scheme (PTS) or a taxation scheme for agricultural producers (TSAP) will not be subjected to this tax payment. The above contributed to the increased tax burdens on small and medium enterprises. (Barhatov and Belova, 2015)

In contrast, the government adopted specific trends to provide tax incentives intended to provide support to small and medium enterprises. The tax benefits include specific tax regimes, granting of tax holidays and application of simplified taxation, accounting, and reporting schemes. (Barhatov and Belova, 2015)

4.2.1 Specific tax regimes

The tax legislation adopted five special tax regimes to support SMEs. The regimes are namely: (Barhatov and Belova, 2015).

- Simplified tax scheme (STS).
- Unified tax on imputed income for a particular type of activity (UTPA)
- Patent taxation scheme (PTS)
- Taxation scheme for agricultural producers (a unified agricultural tax) (TSAP)
- Taxation scheme for production sharing agreements.

Businesses subject to a preferential tax structure are not liable for specific taxes such as corporate income tax, property tax, and value-added tax. (with the exception of importing goods into the customs region of Russia.). Under these tax regimes, businesses pay one lower tax instead. A case in point is how businesses that fall under the simplified tax scheme are taxed at a rate of 6% if their income is considered taxable and a rate of 15% if their revenues are reduced by their expenses. (Barhatov and Belova, 2015)

The third quarter of 2014 marked the commencement of UTPA, while the utilisation of the simplified Tax Scheme STS by small and medium-sized enterprises was now governed by revised regulations as of January 1, 2015. Under these conditions, the relevant aspects of small and medium enterprises, such as their presence in shopping centres and their utilisation of non-residential spaces for offices, business operations, food services, and domestic tasks, became apparent. (Barhatov and Belova, 2015)

The simplified taxation scheme is eligible for use by small and medium-sized enterprises involved in the fields of material production, namely communications, transportation, construction, processing industries, and trade. (Barhatov and Belova, 2015)

The UTPA is more intended for businesses operating in retail and providing services. Calculating the tax involves using the reference profitability of enterprises established by the subjects of the Russian Federation, and also integrates special coefficients for the activities of specific companies. (Barhatov and Belova, 2015)

The Patent Taxation Scheme was introduced on 01 January 2013. A total of 47 activities carried out in providing public services and retailing are covered by the patent. Each activity type has possible income that is independently set by the Russian Federation to be the tax base within the minimum (100 000

rubles) and maximum (1 000 000 rubles). For businesses on the Simplified Tax System in 2015-2016, specific measures were introduced to further support the SMEs. This included the reduction of the size of the taxes from 6% to 1% (when income is the object of taxation).

The tax rates for businesses using the UTPA scheme, were reduced from 15% to 7.5%. Concerning the patent taxation scheme, the range of qualifying activities has been expanded while the allowable income threshold has been halved from 1 million to 500 thousand rubles. (Barhatov and Belova, 2015).

The STS, UTPA and PTS contribute more to reducing the tax burden of the businesses. The utilisation of these tax regimes by small and medium enterprises confers upon them the benefit of a reduced tax burden in comparison to those operating under the general tax regime. (Barhatov and Belova, 2015)

4.2.2 The granting of tax holidays

Tax holidays, which involve the temporary relief of taxpayers (corporations and entrepreneurs) from designated taxes, are commonly employed to stimulate economic growth within targeted regions.

On 01 January 2015, the Russian Federation adopted the Federal Law of December 29, 2014, No. 477-FZ, which introduction of two tax codes. The law included the following:

- Delegated powers to grant tax holidays for a period of two years for the SMEs registering as sole proprietors for the first time.
- Tax breaks are further provided to individual entrepreneurs who operate in the areas of production, research, and social services. The governmental bodies of the Russian Federation hold the power to offer tax breaks within the designated period of 2015-2020.
- Regarding the laws, the subjects of the Russian Federation reserve the right to set restrictions for small and medium-sized businesses on tax breaks. These constraints are placed on the average employee count and the highest income generated from the trade of goods, services, and works. Contravention of the limitations shall serve as grounds for the deprivation of the prerogative to avail the tax benefit incentives in the form of tax holidays.

4.2.3 The Simplified Tax System statement and report

In adherence to corporate standards, small and medium enterprises are required to regularly fulfil their tax obligations and make payments towards non-budgetary funds while also providing the requisite reports. The selected tax regime, type of business, and number of employees influence both the accountable receipts list and the total tax and non-budgetary payments. SMEs that utilise specific tax systems maintain minimum accounting records and submit a limited number of reports. Small and medium-sized enterprises that are registered as sole proprietorships and operate without any staff are absolved from the responsibilities of a tax agent.

Since 2015, individual entrepreneurs without employees are not obligated to submit reports to non-budgetary funds. Compliance with the STS or UTPA entails businesses submitting a tax statement that comprises only one completed tax return form for the prescribed accounting cycle. By the end of the year, the entrepreneur is responsible for submitting 2-PIT Form Tax Returns for all individuals who were paid and had income tax withheld. Per statutory guidelines, all small and medium-sized businesses, regardless of their tax regime, are required to disclose information regarding the average number of personnel to the tax authorities, as well as submit reports to non-budgetary funds (such as Pension Fund of the Russian Federation, and the Social Insurance Fund of the Russian Federation).

4.3 Conclusion: Russia

The Russian Federation introduced several tax laws that were targeted to provide support to the small and medium enterprises. This tax benefits included specific tax regimes, granting of tax holidays and application of simplified taxation, accounting and reporting scheme. (Barhatov and Belova, 2015)

The Russian Simplified Tax System is comparable to the South African Turnover Tax System which is also a regime aimed at reducing the tax compliance burden for SMMEs, promoting entrepreneurship and ultimately resulting in economic growth. The regime taxes the annual turnover instead of the net income and applies different reduced tax rates at different turnover ranges. These regimes adopted by both countries provide for a simplified tax system for smaller businesses, which makes it easier to comply with their tax obligations and contribute to the economic growth of the countries.

The tax legislation of these two countries, however, adopts distinct requirements for enterprises to qualify for these regimes. For example, enterprises in Russia would only be eligible for the simplified taxation regime if they were involved in fields of material production, namely communications, transportation, construction, processing industries, and trade.

The tax holidays offered to SMEs in Russia have the potential to significantly impact on the growth and development of businesses. This is because businesses get to focus on day-to-day operations and the growth thereof, with no tax-related compliance burden. These holidays will further relieve businesses financially, allowing them businesses to reinvest their earnings into the businesses to stimulate growth.

South Africa does not have a similar tax regime; thus has an opportunity to explore this tax relief by offering tax holidays for start-ups. This initiative has the potential to stimulate and encourage entrepreneurship and innovation, which in turn will contribute significantly to the SMMEs sectors and the GDP growth. By reducing the tax burden on SMMEs, the government will be lessening the barrier to entry for aspiring business owners. This will make entrepreneurship in South Africa more attractive, resulting in a more vibrant and diverse business environment. Additionally, this will lead to job creation, alleviation of poverty, and economic growth, as SMMEs are the primary drivers of employment and innovation.

Chapter 5: India

The objective of this chapter is to outline the definition of SMME in the context of India and to identify criteria considered for defining SMME. The chapter further details the tax relief measures adopted by India and the motivation behind the adoption of the measures.

5.1. Definition of SMME: India's perspective

The definition of micro, small, and medium enterprise definition in India came with the development of the Micro, Small, and Medium Enterprises Development (MSMED) Act by the Indian Parliament in 2006 (Jahanshahi, et al, 2011).

India categorises enterprises into two broad classes, namely: manufacturing and provision of service, which are further, reclassified as micro, small, and medium enterprises (Jahanshahi, et al, 2011). The size of the enterprise is evaluated based on its capital investment in plant and machinery (manufacturing industry) and equipment (service industry) as follows (Jahanshahi, et al, 2011):

- The micro-enterprises have a capital requirement of less than Rs. 25 lakh in the manufacturing industry and Rs. 10 lakh[1] in the service industry.
- Small enterprises are defined as enterprises with a capital requirement in plant, machinery of more than Rs. 25 lakh and less than Rs 500 lakh in the manufacturing industry and more than Rs. 10 lakh and less than Rs. 200 lakh of equipment in the service industry.
- Whereas medium enterprises must invest in plant and machinery with more than Rs. 500 lakh but less than Rs. 1000 lakh in the manufacturing industry and more than Rs. 200 lakh but less than Rs. 50 lakh in equipment for the service industry.

Table 5.1. Definition of MSME after 02 Oct 2006 (adoption of MSMED Act)

Maximum limit for investment in plant and machinery or equipment		
Classification	**Manufacturing enterprises[2]**	**Service enterprise[3]**
Micro	Up to Rs. 25 lakh[4]	Up to Rs. 10 lakh
Small	Rs. 25 lakh to Rs 500 lakh	Rs. 10 lakh to Rs. 200 lakh
Medium	Rs. 500 lakh to Rs.1000 lakh	Rs. 200 lakh to Rs. 50 lakh

5.2. Tax relief measures adopted in India

5.2.1. Goods and services tax

Indian MSMEs experienced challenges due to the increased inflow of imports from neighbouring countries such as China resulting in severe pressure to adopt cost-efficient strategies, technological upgrades, and quality parameters to remain competitive. (Mohan and Ali, 2018)

In response to this challenge, the union government introduced the GST (goods and services tax) in India to replace a number of existing taxes such as excise duty, service tax, and VAT. (Khurana and Sharma, 2016). The GST was introduced to eliminate the cascading impact of the current tax system and promote economic unity across the nation. (Khurana and Sharma, 2016)

This tax has been implemented in about 160 countries across the world. Studies show that MSMEs implementing this tax regime worldwide have experienced several challenges in complying with GST (Mohan and Ali, 2018). Countries such as Malaysia, Canada, and New Zealand have debated challenges experienced whereas other countries such as Australia have contested the realisation of benefits by

[1] Lakh is a unit in the Indian numbering system equal to one hundred thousand
[2] Investment limit in plant and machinery
[3] Investment limit in equipment
[4] Rs. 1 lakh = Rs 100 000

MSMEs. (Mohan and Ali, 2018). This could be due to different characteristics and dynamics in the way of doing business for MSMEs in unique counties. (Mohan and Ali, 2018)

The GST in China is applicable solely to merchandise and the offering of repairs, replacement, and processing services. (Khurana and Sharma, 2016)

GST, which came into effect on 01 July 2017, is an indirect tax levied on the supply of products and services (Mohan and Ali, 2018) (Mukherjee, Rao, and Bagchi, 2019). It is an extensive, location-oriented, multi-phase tax on consumption. It is charged at different phases of the value-add process in the supply chain for goods and services. The purpose of this tax system is to unify the taxation system in the country. It provides input tax credits, thereby reducing the cascading effect of taxes and possibly reducing taxes. (Mohan and Ali, 2018) (Mukherjee *et al.,*2019). GST is no different from VAT in that they have the same characteristics – the tax imposed on every product and step of the manufacturing process but refunded to taxpayers in various manufacturing processes aside from the ultimate user. The taxation charge is gathered at the location where the product is used instead of where it is produced.

Within the framework of the GST system, individuals responsible for paying taxes on their sales or se rvices can claim input tax credit (ITC) for the taxes they have already paid on their purchases. (Khurana and Sharma, 2016)

In India, applying the goods and services tax is of a dual kind. It is formed from two separate constituents: one levied by the Centre (Federal) and a further tax enforced by state authorities (provincial) governments to collect tax on every stage and value addition. (Mukherjee *et al.,*2019)

Goods and services are taxed according to their characteristics using different tax rates from 0%, 5%, 12%, 18%, to 28%.

The following table provides a summary:

Table 5.2: GST tax rates adopted by India from 01 July 2017

Description	Rate	Examples
Exempt/Nil rated	0%	Exports
Special rate	1%	Bullion
Concessional rate	10%	Basic goods
Standard rate	20%	Products other than the above.

The key benefits of the GST are: (Khurana and Sharma, 2016)

- It minimises the ripple effect of taxation and the expenses associated with producing and delivering goods and services.
- It brings about ease in the tax return filing process.
- It contributes to the governance of digital trade and the informal economy.
- It further assists in providing a composition levy for the MSMEs.
- The adoption of GST will address the issue of numerous indirect taxes, creating a more streamlined tax environment that enhances the experience for manufacturers and ultimately benefits consumers.
- Integration of the Indian market into a singular common market.
- It promotes the objectives associated with collaborative federal governance.
- Furthermore, it results in a reduction of compliance issues.

In the study conducted by Maheshwari and Mani, it was determined that “elimination of cascading effect” and “enhancement of threshold limit” is essential. The complete implementation of GST will yield long-term advantages for the economy. (Maheshwari and Mani, 2020)

The major components of GST are aimed at inducing competition in the export industry and protecting the domestic goods/services industry. This indirectly benefits MSMEs as it encourages productivity and growth within the domestic industry. (Mohan and Ali, 2018).

GST is considered to have been supplied at the earliest date the invoice is issued and the date of receipt of payment. (Mohan and Ali, 2018). The chargeability of the tax is determined by the place where goods or services are supplied. This differs depending on whether it is a State-GST (SGST), Central-GST (CGST), and Integrated-GST (IGST)/Dual GST. The GST will be leveraged depending on the place of supply and the location of the supplier. (Mohan and Ali, 2018)

The tax applies to the value of the transaction, specifically the real amount that is either paid or expected to be paid for the products or services rendered. (Mohan and Ali, 2018). The costs include all costs incurred until the day of the transfer of complete or significant control. The transaction price is net of any discounts that could have been given before or at the time of the sale. (Mohan and Ali, 2018). Where the transaction is with related parties, the open market value will be considered the value of the supply or would be determined using the cost value or residual value method for items of exact nature. (Mohan and Ali, 2018)

Herein lies a brief synthesis of some of the challenges identified by the MSME entrepreneurs in relation to GST (Mohan and Ali, 2018):

- It is time-consuming and not cost-effective. This is due to recordkeeping requirements which require staff time, thus adding more administration costs.
- The system is too complex to understand. With a lack of expertise in the MSME sector, many businesses will shut down.
- The system has toughened profitability margins.
- On the 8th and 9th of each month, the system's filing server often becomes inoperative, which occurs right before the deadline on the 10th, causing frequent penalties to be incurred.
- Insufficient seminars held post-implementation to ensure proper guidance is provided to MSMEs. Only training and knowledge-sharing sessions were held prior to the enactment of GST.
- There is no detailed online, step-by-step guidance for GST filing.
- Lack of offline facilities to aid in rural or remote areas where connectivity has proven to be an issue.
- The system does not allow changes once the returns or invoice details have been submitted.
- There is a lack of feedback mechanism in the system. MSMEs do not receive prompt responses when they have queries or issues.
- MSMEs still encounter penalties despite having received a message confirming the successful completion of their filing.
- There is insufficient clarity within the system concerning the accessibility of input tax credits.
- Composition levies are advantageous mainly for small-scale enterprises, leaving larger businesses without notable benefits.

5.2.2. Composition levy

The Composition Scheme requires that the tax returns be filed per quarter instead of monthly returns applied in business compliance. (Mohan and Ali, 2018). This consideration was made taking into account the limitations on resources and expertise available to the disposal of the enterprises and new entities with total revenue of no more than 7.5 million Indian Rupees. (Mohan and Ali, 2018). The service sector is not included in this provision; therefore, the incentive only applies to the manufacturing sector. The benefit of this scheme is reduced tax liability, more liquidity to the entity, and reduced compliance burden. Further, lower tax rate slabs are available within the scheme and do not require

detailed recordkeeping in that particular entity. (Mohan and Ali, 2018). Interstate transactions are prohibited within this scheme and do not allow input tax credits. (Mohan and Ali, 2018)

5.2.3. Input tax credit (ITC) and reverse charge

The ITC focuses on the modification of tax charges relating to purchases in contrast to the obligation concerning output taxation. The credits can only be claimed for purchases related to the normal carrying of a trade for that business and not for personal purchases. (Mohan and Ali, 2018). The credits cannot be claimed if depreciation has already been accounted for on the capital goods for tax filings. (Mohan and Ali, 2018).

The mechanism of reverse charge involves transferring the tax payment duty from the vendor to the buyer. Its objective is to increase tax revenue and compliance by including the unorganised sector. It is also applicable to both the service sector and manufacturing sector (Mohan and Ali, 2018).
The compensation scheme and ITC also apply to tax duties that were levied on the reverse charge. (Mohan and Ali, 2018)

5.2.4. Additional tax incentives

The budget for 2012-13, and 2013-14 highlighted specific adoptions, which serve to promote market access for small and medium enterprises. Amongst the other highlights are the tax relief adoptions detailed below: (Mohan and Ali, 2018)

- The Indian government adopted a turnover limit for compulsory tax audit and presumptive taxation to rise from `60 lakh to `1 crore[5] for SMEs. This means that SMEs with turnover of less than 01 crore will not be subject to compulsory audits, which reduces tax-related administrative burden on SMEs.
- The capital gains tax on the residential property sales is exempt provided that the amount received from the sale is used for the acquisition of equity interest of a manufacturing SME company for the purchase of new plant and machinery. The adoption of this policy is to encourage entrepreneurship and investment in the manufacturing industry.
- Where an MSME grows into a larger enterprise, the MSME is exempt from tax for three years after the growth into a larger-scale enterprise. This is to support the enterprise to remain sustainable on a large scale.

5.3. Conclusion: India

GST possesses characteristics similar to VAT in that it imposes a tax on every product and step of the manufacturing process but is refunded to taxpayers in various manufacturing processes other than the final consumer. Further, the tax is collected from the point of consumption rather than a point of origin. (Mohan and Ali, 2018).

Several countries that have adopted the GST regime have debated challenges experienced while using the regime, while others contested the realisation of benefits. Some of the challenges identified during the literature review include the complexity of the system, cost-ineffectiveness, lack of post-implementation, lack of online guidance, etc. Most of these challenges identified seem rather administrative, stemming from the system used for implementation and change management processes implemented by a specific country upon implementation.

South Africa may evaluate the possibility of adopting this regime by combining the different indirect taxes into one to lessen the tax compliance burden on small businesses. To adopt the regime, the policy makers would, however, need to be cognisant of the different characteristics existing in different countries currently implementing the regime and consider the pros and cons along with the feasibility of implementation in the country – considering the existing tax regime in

[5] Crore is a unit in the Indian numbering system that denotes ten million

the country. Lessons learned from India when implementing the regime as well as processes implemented to refine the system, may assist the South African policy makers in assessing the feasibility of implementation.

Combining indirect taxes may have a positive impact on the economic growth in South Africa in that, it may induce competition in the export industry, protecting the domestic goods/services by facilitating a more efficient movement of goods across the country's borders as it eliminates the need for multiple checkpoints and taxes. Additionally, it will provide for a seamless tax compliance process, which makes entrepreneurship more attractive than it currently is.

The Indian government also provides different ways of tax holidays for SMMEs, which include exemption from tax for three years when the enterprise grows on a larger scale. The aim of this exemption is to support smaller businesses in the growth phase to remain sustainable on a larger scale. This may be one of the tax reliefs South Africa ought to implement to not only support the entry-level SMMEs but to further support the businesses in their growth journey to ensure sustainability. But once again, the policy makers would have to evaluate the feasibility of implementation, considering the existing tax regime in South Africa.

Chapter 6: China

In this chapter, we explore the measures that have been adopted in China, targeting the segment of small and medium enterprises. Additionally, we will elaborate on the diverse array of relief measures that are currently accessible to SMEs in China, while also delving into the underlying motives that have prompted the implementation of these measures.

6.1. Definition of SMME: China's perspective

According to the International Labour Organisation's August 2019 report, statistics from 99 countries indicate that small and microenterprises, as well as self-employed individuals, account for 70% of employment opportunities. (Ma, Lui and Gao 2021) The "2020 China's Small and Medium-sized Enterprise Market Status Survey and Development Trend Forecast Analysis Report" released by China Industry Research Network, shows that Chinese small, micro, and medium-sized enterprises constituted a staggering 99.7% of the total number of enterprises in the nation by the end of 2019. The vast majority (97.3%) of the enterprises belonged to the small and micro categories. (Ma, *et.al*., 2021)

The report further indicates that Chinese SMEs make up more than 50% of the tax collected, more than 60% of GDP, over 70% of technological innovation, more than 80% of urban labour employment, and over 90% of business entities. (Ma, *et.al*., 2021). These statistics re-emphasise the importance of SMEs particularly in the fast-developing economies such as China. The SMEs have proven to be a powerful sector of China's economic and social development. Industrial enterprises dating back to 1993 – 1998 have shown that SMEs perform better than large entities in China, in relation to gross- production value, which proves that SMEs are capable of operating more efficiently which is vital to the economy. (Ma, *et.al*., 2021)

Zhengwei Ma of China University of Petroleum Beijing provided a broader definition of SMEs, referring to entities that participate in economic activities, irrespective of the legal form of the entity. These organisations have specific restrictions on size and can include individual, family businesses, associations, and partnerships that engage regularly in different economic activities. (Ma, *et.al*., 2021). The Republic of China's Minister of Industry and Information Technology considers SMEs as entities with about 10 to 300 employees. (Li, Zheng, Si, and Xu, 2019)

The SME Promotion Law of China provides a guide on criteria and characteristics for qualifying as an SME. These guidelines were issued in 2003 and replaced the old guide published in 1998 and supplementary criteria issued in 1992. (Xiangfeng, 2007)

The categories considered relate to the total value of assets, sales value, and employment capacity. According to the guidelines, this criterion is applied to enterprises in the following industries: retail, transportation, construction, wholesale and industrial sector, as well as the hotels and restaurants industry. (Xiangfeng, 2007). For an enterprise to qualify as a small entity in the industrial sector, it must not employ more than 300 staff members and not more than 2000 staff members to qualify as a medium-sized entity. Additionally, the entity must have a maximum of ¥40 million of total assets and make not more than ¥30 million of sales to qualify as a small entity. For the entity to qualify as medium-sized, it needs to have a total assets value of between ¥40 million and ¥400 million and generate revenue of between ¥30 million and ¥300 million. (Xiangfeng, 2007)

The construction industry requirements are similar to those of the industry sector, except that the maximum staff employed is 600 members for small business and between 600 and 3000 for medium-sized. (Xiangfeng, 2007). This could be due to the nature of the construction industry, which is more labour-intensive, thus expected to employ more staff compared to the industry sector. The transport sector has the highest employment base after the construction industry with a maximum of 500 for small enterprises and between 500 to 300 members for a medium-sized enterprise. (Xiangfeng, 2007)

The definition is quite complex and might include other firms that are relatively large in other countries. In Asia, SMEs in the industrial sector must have a maximum of 300 employees to qualify as a small business, while a medium size would have between 301 and 2000 employed staff. (Xiangfeng, 2007). An Asian large firm could be regarded as an SME in China.

The government of China emphasised the importance of developing the SME sector in 2001. (Muriithi, 2018). This development incorporated the need to include SME development in China's overall strategic plan for both social, economic and national development. This led to amendments of a series of policies and tax legislations to assist in the development and promotion of the SME business sector. The amendments entailed preferential tax schemes, employment-focused tax solutions, and custom income tax measures for small commercial ventures. (Muriithi, 2018)

6.2. Tax relief measures adopted in China

6.2.1. Preferential taxation policies

Income tax policies for small enterprises

The Chinese government reduced its corporate income tax rate from 33% to 18% in order to reduce the tax burden on small businesses. (Muriithi, 2018) This is applicable to enterprises with an annual profit of less than US$3,600. For entities with an annual profit of over US$3,600 but less than US$112,000, the tax rate was reduced to 27%. Additionally, the government lowered the VAT rate from 6% to 4% for enterprises with annual sales revenue of less than US$ 0.2 million. The government further allowed township SMEs a 10% discount on their payable income tax to compensate for social welfare expenditure that the government should have paid for. (Muriithi, 2018)

Taxation policies to stimulate employment.

As per the regulations set forth, a new urban job placement company may be granted a three-year exemption from business income tax if it effectively secures employment opportunities for urban inhabitants within its first year of inception, of which 60% should be unemployed workers. (Chen J, 2006) The agency is eligible for a reduction of 50% on corporate income taxes for a period of two years, if during the year succeeding the first exemption; more than 30% of the total jobs secured by the agency is for unemployed workers. (Chen J, 2006)

Newly established service businesses, commercial enterprises, and trading companies are eligible for a three-year exemption from urban maintenance and construction tax (UMCT), additional education fee, and income tax, on condition that they hire at least 30% of their workforce from the pool of laid-off workers and commit to three-year employment contracts (Chen J, 2006). Service companies that fulfil the aforementioned criteria are also eligible for a three-year exemption on business tax. (Muriithi, 2018)

Tax policies for businesses in the high-tech sector.

Establishments operating within state-sanctioned high-tech industrial development zones and duly recognised as high-tech enterprises by the authoritative body are bestowed a two-year exemption from enterprise income tax, effective from the commencement of their business operations. Enterprises can still take advantage of a 15% discounted income tax rate after the initial two-year exemption period has passed. (Muriithi, 2018)

Tax policies for businesses in the service industry.

Newly established enterprises operating within service industries, such as technological service, transport, and consultation services; are given a one-year income tax exemption and a 50% reduction in income tax in their second year. In addition, the government offers various tax incentives to companies affiliated with universities and schools, newly established businesses in impoverished and underdeveloped regions endorsed by the government, and social enterprises that employ individuals with disabilities. (Muriithi, 2018)

6.2.2. Research and development tax incentives

Policy makers have suggested implementing tax credits as a means to encourage innovators to participate in research and development (Greenhalgh, and Rogers, 2010). The rationale behind this is that introducing tax credits alongside the individual profits from RandD can enhance the overall return for innovators and provide them with increased compensation (Wang, and Kesan, 2022). There is empirical evidence showing that R&D tax incentives have a positive impact on R&D and patenting by both large and small firms in some OECD countries. (Wang, and Kesan, 2022)

China undertook two policy reforms in 2011, which targeted the promotion of innovation and growth in the software and integrated circuit (IC) industry. The tax reforms included corporate tax credits (CTCs) which are *firm-specific* and value-added tax credits (VATCs) which are *product-specific* (Wang, and Kesan, 2022). The CTC reform was developed to specifically target software and IC firms while the VATC reform targeted all types of companies which incorporate software and ICs into their products.

The study by Wang and Kesan performed in the College of Law, University of Illinois at Urbana Champaign in 2017 found that the corporate tax policy reform resulted in an economically significant increase in R&D intensity after the Chinese government adopted the series of tax incentives relating to corporate income tax (CIT), value-added tax (VAT), and other taxes for SMEs. (Wang, and Kesan, 2022)

6.2.3. Extension of preferential taxation policies

Corporate tax lowered for small enterprises.

China announced through Announcement 2022 No.13, additional policies adopted to further implement the preferential income Tax Policies for SMEs. The policies in this announcement applied to small and low-profit enterprises, which are defined as enterprises that satisfy the following criteria: (MOF and SAT, 2022c)

- Must not engage in prohibited and restricted industries in China.
- The annual taxable income amount is below RMB3 million.
- The number of staff employed does not exceed 300 headcounts. The staff members should include employees who signed employment contracts with the enterprise and employees assigned to work by labour services companies.
- The total asset of the enterprise is no more than RMB50 million.

Implementing the new tax policies reduced the applicable corporate income tax rate for small and low-profit enterprises to 20%. The SME further include the part of their annual taxable income between RMB1 million and RMB3 million in the taxable income as a reduced inclusion rate of 25%. This applies to the period 1 January 2022 to 31 December 2024. (MOF and SAT, 2022c)

Pre-tax deductions for MSME

The National Development and Reform Commission released policy measures in February 2022 aimed at advancing struggling micro, small, and medium-sized enterprises (MSME), including the Pre-tax Deduction Policy.

According to the policy, MSMEs are entitled to deduct costs incurred when buying equipment. If a business buys new equipment, with a depreciation period of 3 years, the qualifying business will be entitled to a once-off write-off on the total purchase price from the taxable income. For equipment with a depreciation period of over four years or more, the business will be entitled to 50% deduction of the purchase price from the taxable income in the first year, and the other 50% is deducted over the remaining period. In terms of the policy, the entities are further allowed to carry forward assessed losses

incurred in one period, which will be used up in the following years as a deduction. These assessed losses can be carried over for a period of five years. (MOF and SAT, 2022)

VAT exemption for MSMEs

In terms of the new policy, VAT exemption from 1 April 2021 to 31 December 2022 is granted to MSMEs with monthly sales not exceeding CNY150,000, including VAT. This is according to China's Ministry of Finance (MOF) and State Taxation Administration (STA) 's Announcement [2021] No.11. For the duration of 1 April 2022 through 31 December 2022, the MSMEs were granted the privilege of VAT exemption from their taxable sales revenue, as per the applicable tax rate of 3%, along with a moratorium on VAT prepayment for items subject to such prepayment at a rate of 3%. (MOF and SAT, 2021)

Reduction of six local taxes and two fees

China further announced the implementation of the Policy of Reducing the "Six Local Taxes and Two Fees" for SMEs to 31 December 2024. The six impositions within the local jurisdiction comprise of resources tax, urban maintenance and construction tax, property tax, urban land use tax, stamp tax, arable land occupation tax, education surcharge and local education surcharge. The local government can lower taxes for VAT small-scale taxpayers, small low-profit enterprises, and self-employed households by a maximum of 50% within the prescribed tax bracket, following an assessment of their unique situations. (MOF and SAT, 2022b)

Based on this declaration, the regional administrations can potentially decrease the six local levies and two charges, up to 50% under the VAT bracket, for small-scale taxpayers, small low-income businesses, and self-employed households. Moreover, the tax cuts can be executed in conjunction with other preferential policies. (MOF and SAT, 2022b)

Manufacturing MSMEs: deferred tax

The Minister of Finance announced on 28 February 2022, the clarification of policies stated in the STA Announcement (2021) No. 30 for MSMEs in the manufacturing industry. The policy grants MSMEs in the manufacturing sector the option to delay payment of certain taxes for the fourth quarter of 2021. (SAT and MOF, 2021b)

MSMEs in the manufacturing sector are defined as enterprises with annual revenue between RMB 20 million (inclusive) and RMB 400 million (exclusive) (medium manufacturing enterprises) and enterprises with an annual revenue below RMB 20 million (exclusive) (micro and small-scale manufacturing businesses) in the manufacturing sector under the national economic classification. (SAT and MOF, 2021b)

The enterprises that meet the specified conditions may defer 50% of the specified taxes and duties for a period of 3 months and only pay upon the expiry of the deferred period. (SAT and MOF, 2021b)

Taxes acceptable to be deferred include corporate income tax, individual income tax, domestic value-added tax, and domestic consumption tax incurred by manufacturing MSMEs. The designated time frame for the enterprise to incur these taxes is between January and June 2022. This encompasses the additional fees for urban maintenance and construction, as well as surcharges for education and local education; however, it excludes taxes and fees that are withheld, collected and remitted or paid on behalf of a taxpayer by the tax authorities when issuing invoices. (SAT and MOF, 2021b)

6.3. Conclusion: China

China has also implemented several tax relief policies to relieve the tax compliance burden on SMMEs. This includes reduced corporate income tax rates and VAT rates. Township SMEs further receive 10

discounts on their payable income tax. Businesses benefit from the relief as they can retain more of their earnings and retain them for reinvestments into the businesses and expansions which facilitates growth.

Although South Africa has specific tax relief measures that reduce the effective tax rate of corporate income tax (such as the turnover tax system), further categorisation and a further look into relief provided to support businesses in rural areas may be essential. This will assist in growing the economies in the townships and rural areas.

Further, preferential tax policies were introduced where businesses such as new urban job agencies, service, commercial, and trading businesses are exempted from business income tax for three years on condition that they secure jobs for unemployed workers. This is a similar initiative to the employment tax incentive scheme that was introduced in South Africa – in that the main objective is job creation, however, the ultimate impact is that it reduces employee costs, which could substantially benefit implementing businesses financially.

Other types of tax relief introduced by China such as research and development incentives, VAT exemptions, deductions relating to the use of capital expenditure as well as the deduction of assessed losses are like tax relieves that are already available to the South African business in terms of the South African income tax legislation and the VAT Act. Although the application process and conditions may differ, the concepts are similar, and the tax reliefs are targeting the SMMEs to allow for significant deductions in earlier years of operations, which reduces the annual taxable income and ultimately, the tax amount payable.

Chapter 7: Evaluation

7.1. Introduction

The objective of this chapter is to evaluate the relief measures identified from Chapter 2 to Chapter 6 and to draw a comparison between the identified relief measures.

A literature review was adopted as the appropriate research method for this study. Different existing literatures were identified, analysed, evaluated and no new information was collected for the purpose of drawing conclusion on this study.

7.2. Definition of small, medium and micro enterprise

The South African tax legislation considers three different definitions for enterprises that all fall within the SMME size scale. The legislation considers micro business, small business and small business corporations. All these different definitions have specific tax reliefs attached to them. An enterprise will have to evaluate itself against the criteria of the specific definition to determine whether it qualifies for the specific relief measure/tax incentive attached.

The various definitions have distinct, detailed requirements although some of the requirements are similar. Thus, there is no consistent definition to be applied, but rather the existing definitions depend on the tax incentive that is being targeted. This might result in a reverse impact where the application of the definition result in increased compliance burden on the part of the SMMEs. (Aucamp,2009)

It is acknowledged that the different incentives/reliefs within the SA legislation have specific targets and motives, with the overall objective being to support SMMEs. It is also acknowledged that to provide incentives, policymakers would also include specific requirements to close loopholes in the criteria.

For example, an enterprise does not qualify as a micro business if the shareholders have an equity interest in another company. This would be to avoid large entities, legally registering more than one entity to qualify for the incentives. It would, however, assist if the policymakers would consider simplifying the definition and cabbing the requirements to have a more abridged definition that is easy for the enterprises to apply.

From the literature reviewed, it is evident that there is no world-wide criteria and definition of SMME that is applied across. Different countries adopt different criteria to suit the specific objectives. It has been identified that the lack of a universal definition of what constitutes an SMME is one of the challenges deterring the development of a cross-country analysis of SMME data (Berisha and Pula, 2015). The language mainly used for the definition of SMMEs is numbers. While the qualitative characteristics of SMMEs can undoubtedly distinguish them from other sectors of businesses, quantitative criteria are largely used due to their dimensional classification. (Berisha and Pula, 2015).

There are three quantitative criteria that are used by the World Bank to define SMMEs, namely: number of employees, total assets and annual sales. These criteria are also adopted consistently by the BRICS nations, although the specific requirements within those criteria are tailored to the economic environment of the specific nation.

The definition of SMME adopted by Republic of China is complex but relaxed. The criteria applied would cover other firms that would relatively be considered as large firms in other countries. In comparison, Russia requires a maximum of 100 employees within industrial production and construction and a maximum of 30 employees within the retailing sector, for the entity to be considered small and medium enterprises (Radaev, 2001). China on the other hand requires a maximum of 300 employees within the industrial and 600 employees within the construction industry and maximum of 500 within the retail sector to qualify in the SMME scale. This would mean that tax incentives are afforded to a broader group of companies in China as compared to the other countries. The SMME scale is broader in China as compared to Russia.

India on the other hand categorises enterprise into two broad classes, namely: Manufacturing and provision of service, which are further, reclassified as micro, small and medium enterprise. (Jahanshahi, et al, 2011). The size of the enterprise is evaluated based on its capital investment in plant and machinery (manufacturing industry) and equipment (service industry). (Jahanshahi, et al, 2011)

Brazilian policymakers on the other hand, use the volume of sales as the criteria to measure the size of the firm. (Viega and McCahery, 2019). The SME is defined by Brazil using three main categories, namely: micro-proprietorship, micro-enterprise and small enterprise. (Viega and McCahery, 2019)

From the literature reviewed, it is evident that every country applies its own definition of SMMEs, and this is informed by several factors specific to that particular country. This could include factors such as historical backgrounds, for example, colonialism and the impact it had on the country and its development as well as current policies for the country and overall objectives.

Tax relief measures have a significant impact in the development of SMMEs. Their benefits extend beyond the financial impact, and also include alleviation of administrative and compliance burden which could be costly and daunting for a small enterprise that is just trying to find its feet in the market.

The development and growth of SMMEs in turn play a crucial role in stimulating the economy, GDP growth and alleviating some of the social-economic challenges such as unemployment, poverty, crime rate and the overall development of the country's economy.

From the study, it is evident that all BRICS nations have all recognised how important it is to support the development of SMMEs sector through the provision of tax relief measures.

7.3 Comparison of tax relief measures available within BRICS nations

Table: 7.3 – Comparison of tax relief measures.

No.	South Africa	Brazil	Russia	India	China
1	Turnover tax system (simplified tax system)	Simples Nacional program (Simplified tax system)	Simplified tax scheme (STS).	Goods and services Tax	Preferential tax policies - Taxation policies to stimulate employment.
2	Small business corporation – Early wear and tear deduction		Unified tax on imputed income for particular type of activity (UTPA)	Composition levy	Research and development tax incentives
3	Capital gains tax relief for small businesses		Patent taxation scheme (PTS)	Input Tax Credit (ITC) and Reverse Charge	Preferential tax policies: Tax holidays – Businesses in high-tech sector
4	Skills development levy relief		Taxation scheme for agricultural producers (a unified agricultural tax) (TSAP)	Three-year tax holidays for growing into large enterprises	Preferential tax policies: Tax exemptions for businesses in the service industry

No.	South Africa	Brazil	Russia	India	China
5	VAT Relief		Taxation scheme for production sharing agreements		Extension of preferential taxation policies (Low corporate tax rate, pre-tax deduction, VAT exemptions, Reduction of six local taxes and two fees, and deferred tax.
6	Book-keeping relief		Granting of tax holidays		
7	Relief on advance tax rulings				
8	Venture Capital Companies (incentives for investors)				

Simplified tax system

Based on the literature reviewed, South Africa, Brazil and Russia adopt simplified tax systems. Although each country adopts different policies to simplify the tax process for SMMEs, the objective of the adoption remains the same, which is to reduce tax compliance costs and burdens for SMMEs.

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In Russia, the simplified tax system is only eligible to SMMEs operating within fields of material production, namely communications, transportation, construction, processing industries, and trade, while other fields such as retailing and provision of service uses unified tax on imputed income for particular type of activity. Enterprises on a simplified tax system pay as low as 1 % of their income as tax in Russia.

In Brazil, the simplified tax system works by collecting about six different taxes using a single document, with simplified calculations and payments operating by applying a tax rate on the total revenue of the entity. The unification of the 6 taxes, method of calculation and base for calculation resulted in considerable reduction on the time spent and costs incurred by the entities. Using Simples resulted in eligible firms experiencing a maximum 8% reduction in their tax burden.

South Africa's simplified tax system provides tax ranges based on turnover, with a maximum rate of 3% and an exemption of R335 000 of the turnover. This facilitates costs savings, considering the applicable corporate income tax rate of 27%. Although the benefits of the regime seem attractive, the applicability is however matched with stringent qualification requirements. The regime is only applicable to micro businesses with a maximum qualifying turnover of R1 million. This means that small and medium entities do not get to benefit from this regime and continue to endure compliance costs and burden similar to large and established entities.

Tax holidays

China, Russia and India provide various tax holidays to its SMMEs which provides a temporary relief to taxpayers. These are commonly employed as a mechanism to stimulate economic growth within targeted regions and within the SMME sector.

Russia adopted 2-year tax holidays for SMMEs registering as sole proprietors for the first time and further to those operating in areas of production, research, and social services.

In India, when an SMME grows into a larger enterprise, the entity is exempt from tax for three years after the growth into a larger scale enterprise. This is done to support the enterprise to remain sustainable in the large scale.

In China, newly established enterprises operating within service industries such as technological service, transport, and consultation services; are given a one-year income tax exemption and a 50%

reduction in income tax in their second year. Further, in 2022, China adopted a policy granting businesses in the high-tech sector two-year exemption from enterprise income tax, from the commencement of the business. Furthermore, MSMEs in the manufacturing industry offer the option to delay payments of certain taxes and only pay upon the expiry of the deferred period.

South African tax regime does not offer tax holidays. Tax holidays have the potential to improve competition amongst SMMEs within South Africa, and also allow them to compete internationally as a lower tax burden results in a lower financial burden. Tax holidays could also be adopted to motivate tax registration by informal businesses operating in townships and rural areas of South Africa. This would ensure tax compliance, and result in more tax revenue in the long run when the businesses are developed and tax paying.
By adopting tax holidays, SMMEs can reduce their prices, invest in new technologies, and expand their product offerings which will stimulate their competitiveness in the domestic and international market.
Although this may seem attractive to SMMEs, South African policymakers would need to take into consideration, the economic objectives of the country, the feasibility of implementation in the South African set-up, and the balance between the benefits of tax incentives and loss of tax revenue which is meant to fund basic services to the public.

Pre-tax deductions
In 2022, China adopted a policy aimed at advancing struggling SMMEs. The entities can deduct costs incurred when buying equipment. If the depreciation period for the equipment is three years, the entity is entitled to full once off deduction. For depreciation periods exceeding three years, the entity will be entitled to deduct 50% of the purchase price in year 1, and the other 50% over the remaining period.

South Africa has a similar tax incentive which offers pre-tax deductions to small business corporations. This allows businesses in the manufacturing or similar industry, with gross income not exceeding R20 million to claim wear and tear as tax deduction in full for plant and machinery. For entities in industries other than manufacturing, deductions are made over 3 years with 50% deducted in year 1. Once again, this incentive is only allowed to small businesses and microbusinesses. Medium-sized businesses are not afforded these tax incentives.

Other tax relief measures
Other tax relief measure offered include Goods and Services Tax, Input Tax Credit (ITC) and reverse charge and composition levy offered by India. Goods and services tax has similar characteristics as VAT in that it is imposed on every product and step of the manufacturing process but refunded to taxpayers in various manufacturing processes other than the final consumer (destination-based tax). The tax is further collected from the point of consumption rather than a point of origin. Some of the benefits of this tax regime is that it streamlines all indirect taxes beneficial for the manufacturer and final consumer, reduction of compliance issues, provision of composition levy for SMMEs, allows for inputs tax credit to qualifying taxpayers and bring ease in the tax return filing process.

Some of the tax relief measures adopted by Russia include patent taxation scheme, taxation scheme for agricultural producers, and taxation scheme for production-sharing agreements. On the other hand, China continues to extent its preferential tax policies which encompasses policies to stimulate employment, research and development tax incentives, lowered tax rates for small enterprises and VAT exemptions.

Tax relief measures adopted by South Africa support more formal businesses and have less regard for informal businesses. There are no specific tax incentives for informal SMME businesses in the rural areas, where majority of the unemployed population of South Africa is situated. There is thus lack of support for the development of rural economy. There is a further lack of support for developed SMMEs that need to move to the larger-scale sector to promote sustainability. The tax relief measures apply more to small and microbusinesses and not medium-sized businesses.

Chapter 8: Conclusion

8.1 Introduction

SMMEs are the backbones of many countries due to their significant contributions such as innovation, alleviation of poverty through the creation of employment, reduction of crime, and overall better lives for citizens of every nation. This sector, however, faces different challenges relating to excessive administrations due to stringent regulations and high compliance costs which makes it difficult for smaller businesses to comply. All of these impede the businesses from growing sustainably. Tax relief measures for SMMEs are vital in nurturing development and growth in countries and the global economy at large.

For SMMEs to qualify for existing tax incentives in South Africa, they have to comply with various criteria. Detailed analysis of the relief measures, the reasons for their implementation, and the prior research undertaken were discussed in detail in the second chapter of the study. Amongst the BRICS nations, South Africa remains at the tail end with regards to its economic growth measured based on its GDP. Various studies have proven the major role that is played by SMME sector on economic growth of a country, including those within BRICS. The primary goal of this study was to contrast the tax relief measures accessible to SMMEs in South Africa and other BRICS nations, as carried out in Chapters 3 to 6.

This chapter outlines the findings and conclusions of the research and pinpoint specific areas requiring further research.

8.2 Summary of findings

There is currently no global definition of SMMEs. Every country applies its definition based on factors and circumstances specific to one country. The consensus however is that, despite the absence of a common definition of SMMEs, these entities contribute significantly to the economic growth and GDP of each country. The BRICS nations, in particular, have recognised this fact and have adopted several tax relief measures in the quest to support the development and sustainability of smaller businesses.

Based on the evaluation of tax relief measures available in South Africa, in comparison to those offered in other BRICS nations, the study found that tax relief measures available in South Africa support only small and micro businesses. The requirements are stringent, resulting in few businesses qualifying for the incentives. The relief measures further support more formal businesses and have less regard for informal businesses. There are no specific tax incentives for informal SMME businesses in the rural areas, where majority of the unemployed population of South Africa is situated. There is thus lack of support for the development of rural economy. There is further lack of support for medium sized businesses, and those seeking to elevate to larger scale businesses.

8.3 Conclusion

The study was conducted to ascertain the efficacy and implementation of SARS-proposed tax measures for SMMEs.

From the literature review, there is a need for a more simplified tax system for the SMMEs sector in South Africa, that supports and promote rural economy and developing SMMEs that are either medium in size or seek to tab into the large-scale sector. This will not only alleviate the pressure from existing SMMEs, but it will make the country more attractive for potential foreign investors and lessen the barrier to entry for aspiring business owners. This has the potential to make entrepreneurship in South Africa more attractive, which will result in a more vibrant and diverse business environment. A simplified tax regime that results in a reduced tax compliance burden and lesser tax payable will improve competition amongst SMMEs within South Africa, allowing them to compete internationally. SMMEs can reduce their prices, invest in new technologies, and expand their product offerings which will stimulate their competitiveness in the domestic and international markets. Ultimately, this will lead to increased employment, alleviation of poverty, and economic growth.

The South African policymakers should evaluate the feasibility of adopting tax incentives offered in other BRICS nations such as less stringent and accommodative simplified tax regime and tax holidays/breaks.

8.4 Summary of contributions

This research highlighted tax relief opportunities for SMMEs in other BRICS nations that have not been integrated into South Africa's policies. The results of this research which have been summarised under Chapter 07: Evaluation can be used to develop the SMME sector in South Africa. The sector will benefit from a more simplified tax system, with less stringent requirements and reduced effective tax rates. The South African government will benefit from the overall economic growth, low unemployment rate, less social grant burden, and ultimately, increased tax revenue derived from developed businesses that have moved up on larger scales.

8.5 Recommendations for further research

The aim of this research is to analyse the tax relief options offered by South Africa and other BRICS nations. This research alone does not provide sufficient evidence to ascertain the practicability and viability of implementing tax relief measures, similar to those used in other BRICS nations, within the South African SMME sector. Further investigation is needed to determine if the industry can reap advantages from the tax relief options offered in the remaining BRICS countries and if it would be suitable to include these relief options in the tax laws of South Africa.

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