Seta system hurts small businesses, tax panel warns

By Claire Bisseker

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SA's skills development framework needs to be overhauled because it places a financial and administrative burden on the small business sector, while advantaging large enterprises.

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The Davis Tax Committee has come to this conclusion in its final report on the small and medium enterprise (SME) sector, recommending that the government institute reform.

The system must be changed so that small enterprises can obtain funding without having to implement costly skills and training plans, and table annual training reports.

"The current sector education and training authority (Seta) refund system has resulted in a high degree of impoverishment of the SME sector for the benefit of funding training in larger businesses," states the report.

"Given the objectives of the National Development Plan towards growth in the SME sector, this is unacceptable."

Skills-development levy

Under the current system, small enterprises that have employment costs exceeding R500,000 a year are required to pay a skills-development levy of 1% of payroll to the Setas. Employers can claim back a portion of these funds based on their proven training spend.

However, the committee has found that, for the average small enterprise, the compliance costs of claiming from the relevant Seta would most likely exceed the amount recovered.

A business with a payroll of R20m, for example, has to pay an annual skills levy of R200,000, but only R40,000 can be reclaimed in terms of the mandatory refund.

To recover more would require a so-called pivotal skills programme at more cost.

Many small businesses paid a levy with little or no prospect of obtaining any direct benefit, while some Setas could not meet their expenditure targets, the committee found.

The National Skills Fund has a R7.5bn surplus over the medium term that flowed from 2015's adjustment to the skills development levy. Of this, R5.4bn remains unallocated.

Access limitations

The committee found small businesses could not access the generous training allowances provided for in the Income Tax Act for apprenticeships, learnerships and traineeships because they could not afford to establish such programmes.

On value-added tax (VAT), the committee approved of the current threshold for the cash basis of VAT reporting remaining at R2.5m per year. It recommended that the government consider allowing small businesses to adjust VAT computation when debtors' balances exceeded 90 days.

"This adjustment will go a long way to helping SMEs with their cash flow," said Brendon Darroll of the Small Business Project. "Small businesses cannot continue to contribute to the national fiscus when they haven't yet received the funds to do so," explained Darroll.

The non-governmental organisation also welcomed the committee's recommendations on the skills levy, noting that they resonated with its own research and tackled concerns raised by the sector.

DA spokesman on small business development Toby Chance agreed that the Seta system was largely inaccessible to small businesses and that training incentives needed to be encouraged.

He welcomed the disclosure in the report that small firms would soon no longer need to produce original tax clearance certificates when doing work for the government.

Another positive was the call for further tax incentives for venture capitalists investing in small businesses, he said.

The committee has also filed its final reports on macro analysis and estate duty. It will submit a report on a possible wealth tax before year-end.

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