

Tax registration and compliance makes good business sense for SMEs

Owners of small- and medium-sized businesses (SMEs) have a lot on their plate. Between day-to-day operations, sales and marketing and other responsibilities, they may find they have very little time for admin.



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This often means that good governance takes a back seat, especially in the informal economy. And when this situation includes not complying with tax requirements, it can be both risky and expensive.

Andiswa Bata, FNB Business Regional Head for Gauteng South West says that one of the reasons SMEs don't prioritise tax compliance, is because of the cash-based culture in South Africa.

“Despite some movement towards more digital and card payments during Covid-19, SA is still mainly a cash-based economy,” she says. This was confirmed by a 2015 Finscope report that estimated 6 out of 10 financial transactions in this country are in cash; as well as a 2019 Payments Association of South Africa's (Pasa) study that showed over 50% of the value of consumer transactions comprises payments made with notes and coins.

Bata explains that because cash transactions don't leave a paper trail, so many businesses see no reason for going through the hassle of registering for tax. Some business owners mistakenly believe that not registering for tax will save them money. But she says the opposite is true, and neglecting tax compliance isn't just putting you at risk of fines, or even jail time, it's also keeping you from business support.

"As many SMEs discovered during lockdown, it can be very difficult to access financial help and support if your business isn't registered and paying tax."



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She highlights that tax compliance isn't just important during a crisis. It is also an essential foundation if you want to increase your profits and grow your business. In his 2021 State of the Nation address, President Ramaphosa highlighted the importance of SMEs as economic drivers and job creators, and there are many policies and initiatives being put in place to help small businesses succeed and grow. However, if your business can't produce a tax clearance certificate, it may not be considered for tenders, tax breaks or other incentives.

Even if you recognise that your SME needs to be tax compliant, where do you begin?

Bata says there are three vital first steps any SME should take. Firstly, you need to make sure that your business is registered for all the necessary taxes, including corporate income tax, PAYE, UIF and any other taxes relevant to your specific industry. Then, you need to keep the monthly or annual tax schedules in mind. Remember to routinely set aside cash that may need to be paid over to SARS (e.g. VAT) by possibly putting that money in a separate business account, to have it handy to pay over to SARS when the time comes.

The final step is for both the business and its owners, members and directors to have their tax affairs in order and keep good records. "Even if a business is fully compliant, if the owners or directors can't show they are also in good standing in managing their personal finances, it might still miss out on future opportunities where the financial backing of the directors is required."

"Paying tax is a vital part of ensuring that the country functions properly and that business opportunities keep flowing," Bata concludes, "and when you look at it like that, tax compliance becomes less of a grudge decision and more of an investment in the future of your business."

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