



THE 10 BEST TAX REDUCTION STRATEGIES FOR BUSINESSES > R2MIL P/M IN SOUTH AFRICA



PRESENTED BY:
SUE BRADLEY
Anthurico Accountants

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OPTIMIZE YOUR VAT INPUT CLAIMS

- **What is it?** This involves making sure you're claiming back every cent of VAT you've spent on business-related expenses. VAT input claims are essentially refunds from SARS for VAT paid on goods and services used in your business.
- **Analogy:** Think of VAT claims as cashback for your business. If you're not claiming correctly, it's like leaving your Makro loyalty points unused after spending big on bulk purchases.
- **Teach Concept:** You're already paying 15% VAT on most purchases. By being meticulous with your records, you can get some of that back. The trick is ensuring all valid expenses are accounted for and that invoices are SARS-compliant.
- **Example:** If you're a marketing agency buying software subscriptions or running events, you should claim VAT on the costs. For example, if you've spent R1 million on software and advertising, you could claim back R150,000 in VAT.



2

USE ACCELERATED DEPRECIATION

- **What is it?** Accelerated depreciation allows you to write off the value of certain assets faster, reducing taxable income upfront.
- **Analogy:** Think of it as upgrading your fleet of delivery vehicles and getting an upfront discount on your tax bill before the vehicles even start showing wear and tear.
- **Teach Concept:** Instead of depreciating assets over their useful life, SARS allows you to claim a bigger chunk of the asset's value in the first year. This lowers your taxable income significantly.
- **Example:** A construction company buying machinery worth R5 million could depreciate 50% of it in the first year. This means you'd deduct R2.5 million from your taxable income immediately, reducing your tax burden.

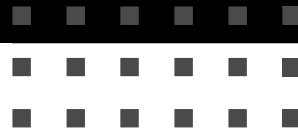




3

SET UP AN EMPLOYEE SHARE OWNERSHIP PLAN (ESOP)

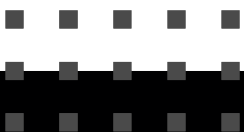
- **What is it?** This is a way to share equity with employees while enjoying tax benefits. Contributions to an ESOP are tax-deductible.
- **Analogy:** It's like giving your best workers shares in the "game" while you still control the playbook, all while cutting your tax bill.
- **Teach Concept:** You can incentivize staff with shares instead of cash bonuses, reducing your payroll tax. SARS sees this as a legitimate business expense.
- **Example:** If you run a tech company and award shares worth R2 million to your employees, you can deduct this from your income for tax purposes. This not only saves on tax but also boosts employee loyalty.



4

MAXIMIZE TAX-FREE BENEFITS FOR EMPLOYEES

- **What is it?** Providing non-taxable perks, like medical aid contributions or travel allowances, reduces your payroll tax obligations while keeping employees happy.
- **Analogy:** It's like giving your team gym memberships and spa days instead of cash raises—they get the benefit, and you save on tax.
- **Teach Concept:** Some perks are tax-free or taxed at a lower rate. By structuring compensation packages wisely, you reduce your PAYE and UIF liabilities.
- **Example:** Instead of giving a R10,000 raise, provide medical aid coverage. You save on PAYE, and the employee still receives significant value.



5



LEVERAGE RESEARCH AND DEVELOPMENT (R&D)

- **What is it?** SARS offers tax deductions for businesses investing in innovation or improving existing products.
- **Analogy:** It's like building a better mousetrap while SARS foots part of the bill.
- **Teach Concept:** If you're in manufacturing, IT, or even food production, spending on R&D qualifies for a 150% tax deduction. That's money back for innovating.
- **Example:** A manufacturing business developing eco-friendly packaging spends R2 million on R&D. They can claim R3 million as a deduction, saving R300,000 in taxes at a 28% rate.

6

SECTION 12L ENERGY EFFICIENCY INCENTIVES



- **What is it?** Businesses can claim tax deductions for measurable energy savings.
- **Analogy:** Think of it as getting paid to save on electricity by swapping out your old light bulbs for LEDs or installing solar panels.
- **Teach Concept:** Every kilowatt-hour saved counts toward a tax deduction. With energy prices high, this is a no-brainer.
- **Example:** A factory installs energy-efficient equipment that cuts its electricity bill by R1 million annually. This could translate into a R300,000 tax deduction under Section 12L.



7



REVIEW YOUR BUSINESS STRUCTURE

- **What is it?** Operating as the right entity (sole proprietor, partnership, company, or trust) can dramatically impact your tax liability.
- **Analogy:** It's like choosing the right car for the job—a sedan for city driving or a bakkie for heavy-duty tasks.
- **Teach Concept:** A company pays a flat 28% tax rate, while trusts have unique estate planning advantages. By restructuring, you could reduce tax or shield assets.
- **Example:** If you're a marketing agency making R24 million annually, moving some of your profits into a trust for your children's education fund can lower overall taxes.

8

DEFER INCOME WITH SMART INVOICING

- **What is it?** By adjusting when you issue invoices, you can shift taxable income into a different tax year.
- **Analogy:** It's like postponing the big reveal in a movie to make the payoff sweeter later.
- **Teach Concept:** Delay invoicing for large projects until after the tax year-end to push income into the next year, lowering your immediate tax burden.
- **Example:** A consulting firm completes a R5 million project in March but delays invoicing until April (new tax year). This defers the income tax by a full year.



9

USE TAX-DEDUCTIBLE DONATIONS

- **What is it?** Contributions to approved Public Benefit Organizations (PBOs) are tax-deductible.
- **Analogy:** It's like giving back to the community while SARS gives you a pat on the back and a tax break.
- **Teach Concept:** Donating to PBOs reduces your taxable income while enhancing your brand image.
- **Example:** A food distribution company donates R1 million worth of goods to a local charity. SARS allows a deduction of up to 10% of taxable income, saving R280,000 in taxes.

10

SECTION 12B FOR RENEWABLE ENERGY INVESTMENTS

- **What is it?** This section allows businesses to write off 100% of renewable energy investments in the first year.
- **Analogy:** It's like installing solar panels and letting SARS foot the upfront cost.
- **Teach Concept:** Renewable energy systems like solar reduce your electricity bill and can be fully deducted from taxable income in year one.
- **Example:** A logistics company invests R5 million in solar power. They can deduct the entire amount immediately, reducing their taxable income by R5 million.



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ENTERPRISE SUPPLIER DEVELOPMENT (ESD) INITIATIVES

- **What is it?** This involves funding or supporting smaller black-owned businesses as part of your B-BBEE compliance. SARS allows tax deductions for qualifying contributions.
- **Analogy:** It's like planting seeds in your industry's ecosystem—helping smaller businesses grow while reducing your tax bill.
- **Teach Concept:** By aligning your supplier development efforts with B-BBEE requirements, you gain points for compliance while deducting these contributions as a business expense.
- **Example:** If your retail company provides R1 million in funding to a small logistics business you partner with, the entire amount could be deducted, reducing taxable income by R1 million.



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TAX BENEFITS ON SKILLS DEVELOPMENT CONTRIBUTIONS

- **What is it?** Investing in accredited training programs for employees qualifies for tax deductions while enhancing your B-BBEE score.
- **Analogy:** Think of it as killing two birds with one stone: upskilling your team and reducing your tax obligations.
- **Teach Concept:** You can claim back the costs of training programs under SARS' tax allowances, provided they are approved by SETAs (Sector Education and Training Authorities).
- **Example:** A tech company spends R500,000 on training its developers. This amount is tax-deductible and improves its B-BBEE skills development score.

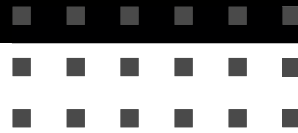




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SPLIT REVENUE STREAMS STRATEGICALLY

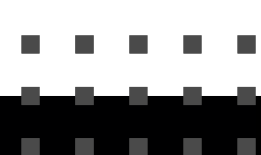
- **What is it?** By allocating income to separate entities or branches, you can reduce overall tax exposure.
- **Analogy:** It's like dividing your cash flow into multiple jars, ensuring each jar stays under a tax threshold.
- **Teach Concept:** If you're running multiple divisions, set up separate legal entities for each. This allows you to take advantage of specific tax benefits for smaller businesses or apply different tax strategies.
- **Example:** A hospitality group runs restaurants and a catering business. Splitting the catering arm into a separate company allows it to benefit from small business tax incentives.



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LEVERAGE FRINGE BENEFIT TAX EXEMPTIONS

- **What is it?** Certain employee benefits, like low-interest loans or bursaries, can be structured to minimize tax.
- **Analogy:** It's like finding loopholes in the "rulebook" that let you give more without paying extra.
- **Teach Concept:** SARS allows specific exemptions on fringe benefits, like education bursaries for employees' children or loans below market interest rates. By offering these benefits, you can reduce taxable income.
- **Example:** Your construction company provides R100,000 in educational bursaries for employees' children. This amount is exempt from tax, reducing payroll tax liabilities.



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SECTION 12H LEARNERSHIP ALLOWANCES

- **What is it?** SARS provides additional deductions for employing learners under registered learnership agreements.
- **Analogy:** It's like hiring interns and getting paid by SARS to train them.
- **Teach Concept:** For every learnership agreement you implement, you can claim up to R80,000 in additional deductions per learner annually.
- **Example:** If your manufacturing business hires 10 learners, you can claim an additional R800,000 deduction, significantly lowering your tax bill.

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RECOVER UNCLAIMED CUSTOMS AND EXCISE DUTIES

- **What is it?** Importers and exporters often overpay customs duties or fail to claim rebates for eligible goods.
- **Analogy:** It's like paying full price at a sale when you should have received a hefty discount.
- **Teach Concept:** Hire a specialist to review your import/export records for the past few years. Many businesses miss out on rebates due to clerical errors or misclassifications.
- **Example:** A fashion retailer discovers R300,000 in overpaid customs on imported fabrics over the last three years and claims it back from SARS.

17

IMPLEMENT A TAX-EFFICIENT DIVIDEND POLICY

- **What is it?** By managing how dividends are paid to shareholders, you can optimize tax on distributed profits.
- **Analogy:** Think of it as adjusting your taps to control the flow of water, ensuring nothing overflows.
- **Teach Concept:** Instead of paying out large dividends subject to 20% Dividends Tax, consider reinvesting profits into the company or using share buybacks, which can have lower tax implications.
- **Example:** A software company with R10 million in profits decides to reinvest R6 million and pay R4 million as dividends. This reduces the immediate tax burden while boosting long-term growth.

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11D R&D TAX INCENTIVES

- **What is it?** This allows deductions for R&D expenses specific to South African innovation projects.
- **Analogy:** It's like building a local engine for your business while SARS subsidizes the fuel.
- **Teach Concept:** SARS incentivizes businesses innovating within South Africa. If your project meets the criteria, you can deduct 150% of the R&D expenses and even apply for cash grants.
- **Example:** An agri-tech company spends R3 million on developing smart irrigation systems. With the 150% deduction, they can claim R4.5 million against taxable income.



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OPTIMIZE TRADING STOCK VALUATION

- **What is it?** Adjusting how you value your stock can influence your taxable income.
- **Analogy:** It's like deciding how much you'd tell the bank your assets are worth when applying for a loan—careful calculations can work in your favor.
- **Teach Concept:** SARS allows flexibility in valuing trading stock (cost, market value, or lower of the two). Choosing the optimal valuation method reduces taxable income.
- **Example:** A retailer with stock worth R10 million at cost but R7 million at market value chooses the lower amount for tax purposes, reducing taxable income by R3 million.



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STRUCTURE OFFSHORE OPERATIONS EFFECTIVELY

- **What is it?** If part of your business operates internationally, you can use double taxation agreements (DTAs) to minimize tax.
- **Analogy:** It's like opening a branch in another country and splitting the tax bill between two homes, ensuring you don't pay twice.
- **Teach Concept:** South Africa has DTAs with various countries, reducing withholding taxes and avoiding double taxation. By structuring income streams correctly, you can leverage lower international tax rates.
- **Example:** A logistics company operating in Namibia and South Africa uses the DTA to reduce withholding tax on earnings in Namibia, saving 5% on taxable income.





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