



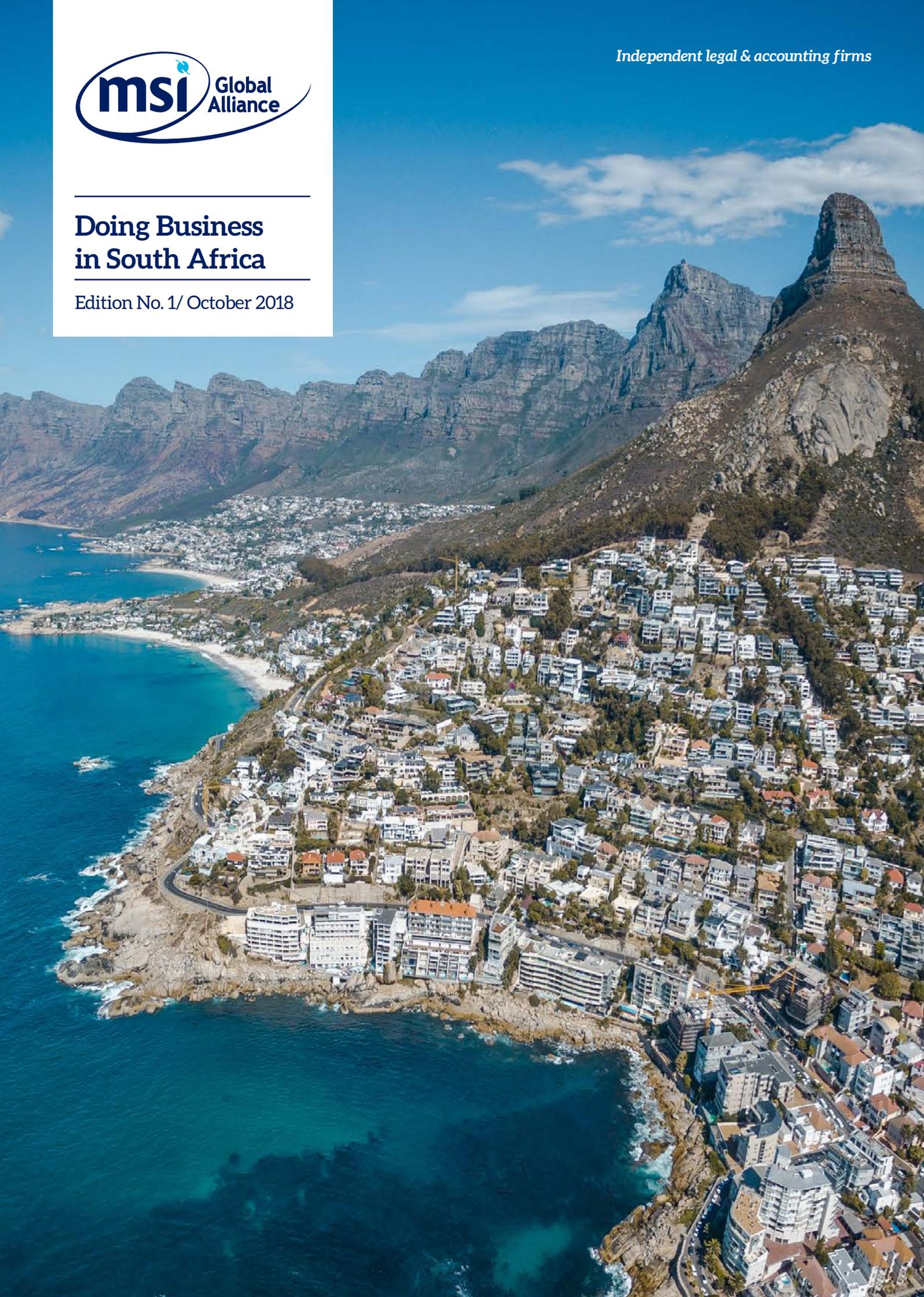
*Independent legal & accounting firms*

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## **Doing Business in South Africa**

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# Doing business in South Africa



**MSI's guide on Doing Business in South Africa provides current information about the financial, regulatory and legal considerations that could affect business dealings within South Africa. For further assistance please contact our MSI member firms in South Africa.**

## Country overview

### Population

South Africa has a total population of 56 million inhabitants (January 2018).

### Government

South Africa is a constitutional democracy with a three tier system of government and an independent judiciary. National, Provincial and Local levels of government all have legislative and executive authority in their own spheres.

South Africa has 9 provinces, each with its own provincial authorities.

### Languages

There are eleven official languages. However, business is usually conducted in English.

### Currency

The national currency is the Rand (ZAR).

### Economic summary

GDP: USD 280 billion

Income per capita: USD 6,000

Inflation: 6%

### Main sectors of the economy

The country is the gateway to Africa and has the second largest economy in Africa.

South Africa has a wealth of mineral resources and favourable agricultural conditions. Historically mining and agriculture were significant drivers of the economy. This has changed over the last three decades and the key sectors are now wholesale and retail trade, tourism, communications, mining, financial services, agriculture and manufacturing. The economy is stable with inflation of

some 6% per annum. It does have the issue faced by all emerging markets of a volatile currency exchange rate.

South Africa is situated on one of the busiest international sea routes, and has eight commercial sea ports.

## Setting up a business

The South African law is based on Roman Dutch Law. A foreign individual or company may operate in South Africa through an incorporated or unincorporated entity or branch. There are no restrictions on a foreign entrepreneur doing business in South Africa. If however a foreign individual wishes to work in South Africa for an extended period, the introduction of a R5 million investment in a business is a prerequisite.

### Legal types of business entities

1. Branch
2. Sole proprietorship
3. Partnership
4. Limited partnership
5. Private limited liability company - (Proprietary)Limited
6. Public limited liability company - Limited
7. Cooperative
8. Foundation
9. Trust

In international business, the Private limited liability company and the branch are most commonly used. The private company is incorporated by one or more incorporators by registration of a memorandum of incorporation with the Companies and Intellectual Property Commission. The share capital must be introduced from foreign funds and the share certificate

endorsed "Non Resident" by the recipient Bank.

A branch of a foreign company must register as an "External Company" with the Companies and Intellectual Properties Commission (CIPC). This entails lodging the founding documents of the foreign company with CIPC.

Many foreign companies make use of a subsidiary rather than a branch, in order to limit liability. As a shareholder of a subsidiary, the foreign company's liability is basically limited to the extent of its capital contribution; whereas, if the foreign company makes use of a branch, it is fully responsible for all the obligations and liabilities of the branch.

### Financial year for taxes and financial statements

The financial year is generally from March to February. However, legal entities may choose a different financial year.

### Accounting and auditing

A statutory audit is required when the company has a public interest score equal to or greater than 350 points. The score is calculated as follows:

1. One point per R1 million or part thereof of turnover;
2. One point per employee based on the average number of employees during the financial year;
3. One point per R1 million or part thereof of third party liability;
4. One point for every individual who has a direct or indirect interest in the securities of the company. A smaller company requires an independent review which is conducted by way of enquiry and analytical review.

**Economic and fiscal incentives**

The government offers a number of incentive schemes in various sectors to support companies in their business operations. For further information, visit the following websites:

[www.investmentincentives.co.za](http://www.investmentincentives.co.za)

[www.brandsouthafrica.com](http://www.brandsouthafrica.com)

[www.dti.gov.za/financial\\_assistance/financial\\_incentives.jsp](http://www.dti.gov.za/financial_assistance/financial_incentives.jsp)

[www.gov.za/taxonomy/term/779](http://www.gov.za/taxonomy/term/779)

**Taxation**

The tax system in any given country is invariably an extremely important element when it comes to investment decisions. South Africa has signed tax treaties with many countries to prevent the occurrence of double taxation.

**VAT**

The general VAT rate is 15%. On certain basic foods there is no vat.

**Income tax**

The tax base for income tax purposes is divided into the following:

1. Income from work and home
2. Income from substantial interest
3. Income from savings and investments.

Each has a different tax rate.

**Corporate income tax**

Tax rates are:

Branch – 28%, no Dividend withholding tax, also subject to capital gains tax.

Private company – 28%, subject to dividend withholding tax of 20% unless lower in terms of a double taxation agreement, also subject to capital gains tax on sale of shares if a property holding company and subject to transfer pricing regulations.

**Registration procedures**

Private persons and companies are registered with the tax authorities and are given a tax registration number.

Communication with the tax authorities by way of tax returns and tax assessments is largely done electronically. ([www.sars.gov.za](http://www.sars.gov.za))

**Withholding taxes**

The most common withholding tax is dividend tax with a rate of 20%. A lower rate is often applicable under a double tax treaty with the country of residence of the shareholder.

**HR/ Labour Law****Employment law**

An employment agreement may be agreed for an indefinite or fixed period of time. An employment agreement for a fixed period of time may not exceed three months except in special circumstances.

**Compensation for occupational injuries and diseases**

Workers are insured for injuries and illness arising from their employment. The premium, for the account of the company, is paid to the Compensation Commissioner annually, based on total payroll costs.

Rates differ depending on the sector of business.

**Payroll**

When starting a business and employing staff, the company must register with the tax authorities. Unemployment insurance contributions and income tax (PAYE) is paid monthly to the tax authorities. The process of registration takes approximately two weeks.

**Unemployment insurance fund**

The employer and employee each contribute 1% of remuneration to the fund monthly to protect employees against unemployment.

**Skills development levy**

The employer pays a monthly levy to the tax authorities of 1% of employee remuneration for use by government on various skills development initiatives.

**Visa and work permits**

Most visitors to South Africa require a visa and if they are going to work in

South Africa, will need to apply for a business visa before taking up employment. In order to get a visa, one generally needs to prove a lack of similar skills available locally or one has to invest R5 million from offshore.

<http://www.home-affairs.gov.za/index.php/immigration-services/types-of-visas>

## Contact us

The information provided in this guide cannot be exhaustive and we recommend anyone considering doing business in South Africa should seek professional advice from our member firms before making any business or investment decision.

### Contact our member firms in South Africa to discuss your requirements:

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