

What is business evolution?

Each business journey is unique. How a business changes over time is determined by the owner's goals, as well as the choices they make in response to the circumstances they face. Businesses rarely evolve in a linear way, meaning the business journey often involves pathways that spiral and loop. Businesses go back and forth between business evolution milestones, usually in response to challenges. For example, an informal food business may find it difficult to keep sales up post-Covid and decide to let the business registration, an important milestone, lapse.

Why is it important to understand business evolution?

Understanding business evolution milestones helps to plan your business evolution journey. Whether you want your business to evolve gradually and change as the need arises, or move swiftly, it is important to make informed decisions.



How the My Business Evolution Pocketbook can help you

- Identify key business evolution milestones
- Get detailed information on each milestone
- Use the guidelines to determine which milestones are important for your business now
- Use the tools to assess your current business evolution capabilities
- Follow the links to useful tools and resources to strengthen your business capabilities and grow your business

Want to assess your business evolution capabilities?

Answer the questions and calculate your score by counting the number of 'yes' responses. For which milestones did you have the most 'yes' responses: A, B or C? Your scores tell where you have strong business

capabilities. Aim to meet more conditions as you strengthen your business capabilities to reach your next milestone! Always be guided by your main business goal.



A. COMPLIANCE CAPABILITIES

1. Is my business registered with CIPC?
2. Does my business have a permit or license registered with the local municipality?
3. Is my business registered with the South African Revenue Service (SARS) for tax?
4. Are my employees registered for benefits such as Unemployment Insurance, Medical Aid, Pension?

Score for A = _____



B.1. FINANCIAL MANAGEMENT CAPABILITIES

1. Does my business have a bank account?
2. Do I keep regular accounts and records of all business transactions?
3. Have I received finance for my business from government, an NGO or other organisation such as a formal business?



B.2. INFRASTRUCTURE CAPABILITIES

4. Does my business operate from a fixed premises in a non-residential building?

Score for B [B1+B2] = _____



C. BUSINESS GROWTH

1. Do I have any employees working for me?
2. Did I get a person to manage the business other than myself?
3. Did I open new branches of my business in other areas?
4. Did I sell or outsource parts of my business?

Score for C = _____

About the My Business Evolution Pocketbook

This pocketbook was created by a team of researchers at the Human Sciences Research Council (HSRC).

The HSRC is a social science research institution in South Africa. Since 2017, the HSRC has carried out research to understand how informal business owners in South Africa use their skills and knowledge to create value for their customers. And how they use creative solutions to make do with the limited resources they have. The research is useful because informal businesses play an important role by providing affordable goods and services in communities and creating livelihoods.

The My Business Evolution Pocketbook is one of several resources the HSRC has created so that small business owners can benefit directly from the research findings.

Download the My Business Innovation Planner (MyBIP) app to assess your current business evolution capabilities and plan how to build new business capabilities.

Want to know more?

Join our community



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<https://www.youtube.com/@InformalBusinessInnovation/videos>

<https://informalbizinnovationhub.hsrc.ac.za>



My Business Evolution Pocketbook



A practical guide to the next steps in your business journey to success

A. Compliance Capabilities



Important questions for reaching business compliance milestones:

1. Are you familiar with business regulations?
2. Have you registered your business with the Companies and Intellectual Property Commission (CIPC)?
3. Do you need to register for tax?
4. Are you aware of the different business types (sole proprietorship, partnership, private company, cooperative)?
5. Do you need permits or licences for your business activities?
6. Are you complying with tax requirements, such as PAYE and UIF?
7. Do you qualify for the Employment Tax Incentive (ETI)?
8. Have you considered the benefits of VAT registration for your business?

Turn over for detailed information and guidelines to help answer these questions.

B. Financial Management and Infrastructure Capabilities

1. Have you documented your business activities, job tasks, and processes?
2. Are you digitising your records for better organisation?
3. Have you planned your work premises for efficiency?
4. Do you have a business bank account?
5. Have you considered insurance for your business?



What are the benefits of operating from a fixed premises?

- Greater accessibility and visibility to customers.
- A more professional business image.
- Potential to access better infrastructure and resources.
- Being near other businesses with opportunities for marketing and collaboration to minimise costs.
- It may be easier to comply with industry regulations and standards.
- Municipal zoning restrictions in residential areas may constrain certain business activities.

Consider the needs, requirements and finances of your business before deciding if the cost of moving to fixed premises will outweigh the benefits. Flexibility is important when protecting your business, and sometimes operating from home may better suit your business.

C. Business Growth Capabilities

1. Are you experiencing growth in your customers and sales?
2. Do you need to employ more staff to accommodate growth?
3. Have you considered opening a new branch?
4. Have you assessed your financial records and prepared projections for growth?
5. Have you considered the benefits of hiring a manager for your business?



Three key elements of sustainable business growth:

- Customers: increase sales by growing your customer-base.
- Employees: manage your growing customer-base by employing staff.
- Expansion: open another business or expand the one you have.

As you grow profits, you can invest in your business and attract funding for further business growth.

What are the benefits of hiring a manager?

- A dedicated manager can bring specialised skills into your business.

- Delegate tasks so that you can focus on specific business priorities.
- Get assistance with business documentation and record-keeping.

When should I consider hiring a manager to help in my business?

- When your business grows, and your workload increases.
- When you no longer have time or energy to handle the day-to-day business operations.
- When you need assistance with managing employees and building capabilities in your business. For example, if you need to improve financial management or marketing, you could look for these skills in a manager.
- It is important to clearly define your needs and the skills required from a manager.

How can I set up a new branch and scale my business?

Growing your business may mean expanding your goods or service offering. It can also mean setting up a new branch in a different area. Having the right compliance, financial management and infrastructure capabilities will help to make an informed decision.

What to consider:

- You may need financing to open a new branch. Find out about funding requirements and documentation needed (see overleaf).
- The need to scale or expand should be driven by demand, from your customers or competitors, indicating a clear gap to be filled.
- Assessing your business' financial history is important and helps to forecast the future revenue of your new venture.
- A clear vision and plans help to identify potential risks and decide on the best plan of action.
- Once you've considered all the factors and are confident in your decision, consider the kinds of support you need to achieve your vision.
- You can't be in more than one place and may want to hire a manager for your new or existing branch.

A. Compliance Capabilities

What is business regulation?

Business regulation is how the government monitors business practice. The Department of Trade, Industry and Competition regulates competition, consumer protection, company and intellectual property, and public interest. The Department of Small Business Development is responsible for the regulation of formal and informal small businesses. It is important to understand and follow the regulations and standards for your industry.

Each municipality is required to regulate informal trade. Click on the municipalities to learn about their informal trading regulations:

- [Buffalo City \(East London\)](#)
- [City of Cape Town](#)
- [Ekurhuleni Metropolitan Municipality](#)
- [City of eThekweni \(Durban\)](#)
- [City of Johannesburg](#)
- [Mangaung Municipality \(Bloemfontein\)](#)
- [Nelson Mandela Bay \(Gqeberha\)](#)
- [City of Tshwane \(Pretoria\)](#)

What are the different components of business regulation?



Component	Examples
Laws	<ul style="list-style-type: none"> • The Business Act 71 of 1991 is the main legislation governing informal trading in South Africa • All workers and employers must comply with the Basic Conditions of Employment Act 75 of 1997 • Businesses selling alcohol need to register with the Provincial Liquor Authority, as required by the Liquor Act 59 of 2003 • Construction businesses must comply with the National Building Regulations and Building Standards Act 103 of 1977
Rules	<ul style="list-style-type: none"> • Licences, Permits, Tax
Protection	<ul style="list-style-type: none"> • Trade unions, dismissal, minimum wage
Policies	<ul style="list-style-type: none"> • SMMEs and Co-operatives Funding Policy 2023 • City of Cape Town Informal Trading Policy 2013
Requirements	<ul style="list-style-type: none"> • Local municipality trading permits
Standards	<ul style="list-style-type: none"> • South African Bureau of Standards (SABS) • The National Home Builders Registration Council (NHBRC) regulates standards in the home building industry

Do I need to register my business with the Companies and Intellectual Property Commission (CIPC)?

No, it is not necessary for all businesses to register with the CIPC. For some businesses, there may not be enough benefits to justify registration. However, if you want to transact with government or larger businesses or access business funding, you need to have a registered business.

If I decide to register my business, how do I know which option to select?

Considering the nature of your business, select from these options:

Sole Proprietor 	Partnership 	Private Company 	Cooperative 
<ul style="list-style-type: none"> • Owned and operated by an individual. • Does not exist separate from the owner. • Does not require registration with the CIPC. • Business income must be included in the owner's income tax return and the owner is responsible for this payment. • All assets and risks are the responsibility of the owner. 	<ul style="list-style-type: none"> • A relationship between two or more individuals to carry out a trade, business or profession. • A partnership is not a separate legal person. • Each individual partner is taxed. • Each partner contributes money, property, labour or skills, and shares in the profits and losses. • Similar to a sole proprietorship, but with a group of owners. 	<ul style="list-style-type: none"> • A private company is treated by the law as a separate legal person. • It pays tax in its own right. • The owners of a private company are its shareholders. • Requires registration with the CIPC. 	<ul style="list-style-type: none"> • A business owned and run by and for its members. • Members have an equal say in what the co-operative does and share in the profits. • Cooperatives work to meet economic, cultural and social needs.

Compliance becomes especially important for businesses if they plan to access funding or seek opportunities such as government tenders. Some of the documents required include:

- Tax clearance certificate
- National identification card of the business owner
- Relevant business permits and licences
- Company registration documents
- Business or personal bank statements for six months
- Proof of residence
- One-year financial statements

Visit the [Labour Guide](#) website to find out more about business types and tax for small businesses.

Do I need a business permit or licence?

Certain businesses need a licence to operate in South Africa, including businesses that:

- Make or sell food
- Provide health services
- Play music to employees, the public or guests
- Sell alcohol
- Provide entertainment-related activities such as slot machines, night clubs, movies
- Trade foodstuff and related products in a municipal area

I'm worried about paying taxes if I decide to register my business...

Do I need to register for tax?

Any business can register for tax, but businesses with an income of R1 million or more over a 12-month period must register. Some businesses are exempt from paying tax (i.e. they pay 0% tax).

Sole proprietor – if your business is not registered with the CIPC

You must register with the South African Revenue Services (SARS) and include your business income in your own income tax return. If you fall below the tax threshold for your age group, you may not be required to pay any tax. For example, if you are under 65 and earn less than R95 750 annually.

Age	Tax threshold (per tax year, March to February)
Below age 65	R95 750
Age 65 to below 75	R148 217
Age 75 and above	R165 689

Company tax rates – if your business is registered with the CIPC

The rate of tax is 27% of your taxable income.

Small businesses – if your business is registered with the CIPC and meets the requirements

Small businesses that meet these requirements are taxed differently and may receive tax benefits:

- Must be a corporate entity (close corporation, private company or personal liability company)
- All shareholders of the entity must all be natural persons
- The entity may not have a turnover of more than R20 million
- Shareholders may not hold shares in other companies
- Entity may not be a personal service provider

You may be exempt from paying tax if your income per year is below the tax threshold of R95 750.

If your business is a micro-business, i.e. your annual turnover is R1 million or less, you can register for turnover tax.

What are the qualifying criteria for micro-business turnover tax?

- Turnover of R1 million or less per year.
- Business is not a personal service provider or a labour broker.
- Business trades as either a sole proprietor, a partnership, a close corporation, a cooperative or a company.
- For a partnership, all partners are individuals throughout the year of assessment.
- The business is not a public benefit organisation, a recreational club, an association of persons or a small business funding entity.
- The business owner, partners, shareholders, members, and the business do not hold any shares or interests in a close corporation, company or cooperative.

SARS provides a quick [test](#) that you can do to see if you qualify for turnover tax. If you qualify, you can find more information on how to register [here](#).

My micro-business brings in much less than R1 million, do I still need to pay tax?

Yes and no. If your annual turnover is R335 000 or less, you won't be required to pay tax. If your annual turnover is more than R335 000, there are increasing tariffs linked to specific turnover brackets. The table below shows these brackets.

Turnover (R)	Rate of tax
0-335 000	0%
335 001-500 000	1% of each R1 above 335 000
500 001-750 000	1650+ 2% of the amount above 500 000
750 001 and above	6650 +3% of the amount above 750 000

What if I don't qualify for turnover tax?

This would mean that your income exceeds R1 million over a 12-month period. You would then be required to register for Value Added Tax (VAT). VAT registration in this case is compulsory and must be made within 21 business days from the date the R1 million was earned or will be exceeded.

How do I register for VAT?

SARS provides a [few options](#) to register for VAT. When your business is registered for VAT, you will need to charge VAT on the goods and services you sell. A small number of goods and services have a zero VAT rate. Click on the link for a [list of goods and services exempt from VAT](#) in South Africa.

Are there any benefits to registering for turnover tax or VAT?

Yes, besides being compliant with tax laws and regulations, there are benefits for registering for tax as a micro-business, these include:

Incentives & deductions	Business credibility	Eligibility for government contracts	Access to loans
You are taxed on your profits. Tax deductible expenses include: vehicles, premises, education, transport, stationery, rent, and phone costs.	Business registration improves the credibility and reputation of your business with customers and suppliers.	Business registration and tax compliance improves your chances of accessing government contracts and business opportunities.	Financial institutions and some business support programmes require that you are registered for tax to access business funding and loans.

I need to hire help in my business. What are the regulations around employing people?

If an employee works for more than 24 hours in a month, you need to comply with the conditions set out in the [Basic Conditions of Employment Act](#). There are also tax implications if an employee works for more than 24 hours a month, and their salary is more than the annual tax threshold (R91 250 if less than 65 years old / R141 250 if 65 years or older / R157 900 if 75 years or older¹).

If you have employees, you need to register for [Pay As You Earn \(PAYE\)](#), which you are responsible for deducting from your employee's income.

When would I need to register my employees for benefits?

If your employee works for more than 24 hours a month, you must register for:

- [Unemployment Insurance Fund \(UIF\)](#). This provides short-term relief to workers when they become unemployed or are unable to work because of maternity or adoption leave, or illness. It provides relief to the dependents of a deceased employee. UIF is a joint contribution. You deduct 1% from the employee's earnings, and match this amount as the employer. For example, if a worker earns R1 000 per month, deduct 1%, which is R10. You need to match this contribution of R10, and pay a total of R20 for UIF to SARS.
- In addition to PAYE and UIF, if your employee earnings amount to more than R500 000 over a 12-month period, you are liable for a [Skills Development Levy \(SDL\)](#) which aims to promote staff learning and development and is deducted from employee earnings. Deduct 1% of each employee's earnings, including wages, overtime, leave pay, bonuses, etc.

I've heard that there are tax benefits if you employ youth. I'd like to learn more about this.

Yes, this is the [Employment Tax Incentive \(ETI\)](#) and it's meant to encourage the employment of young and less experienced workers. ETI benefits the employer by reducing hiring costs. Essentially, you pay less employee tax (PAYE). If you and your employee qualify, you can claim ETI from SARS.

How do I know if I qualify for the Employment Tax Incentive (ETI)?

For employers, you can claim ETI if:

- You are tax compliant with no outstanding tax returns and no outstanding tax debt.
- You pay your employees above minimum wage.²

You can only claim ETI for an employee who is:

- A South African citizen, or an asylum seeker or refugee with an asylum seeker permit
- Not related to you (not family)
- Permanent or part time
- Between the ages of 18 and 29
- Not a domestic worker
- Earns less than R6 500 per month
- Was employed on or after 1 October 2013

Want to learn more about tax? Follow the link to contact a [SARS representative in your local area](#) to find out about workshops on tax. You can find out more from the [SARS tax information booklet](#) and [SARS micro-business turnover tax information page](#).

B. Financial Management Capabilities

I'm interested in getting insurance for my business, what do I need?

If your annual turnover is less than R2 million, you qualify for Emerging Business Insurance. The cost per month ranges from R75 to R195, depending on the package selected.

Do I need a business bank account?

It's recommended that you have a separate account for your business transactions, either an additional personal account or a business account. If your business is registered, you can open a business bank account, which offers a variety of useful services designed for businesses. Banks such as FNB, offer special accounts, with no monthly fees, for small businesses.

Why should I document and keep records for my business?

Businesses usually start with three types of documentation:

1. Financial records: recording business expenditure and income provides information on profits and expenditure that may be wasteful. Banks, investors and other financial institutions require this information, and it makes the tax process more manageable.
2. Employee contracts, job descriptions and leave recording helps track employee performance, progress and labour law compliance.
3. Documentation of business policies and processes, such as leave, serves as a resource for onboarding employees and helps establish standards and quality in your business.

How do I begin documenting and record-keeping?

- Start now, to build your financial management capabilities.
- Use the list above to identify business areas and processes that need to be documented.
- Record all business expenses and income. A separate bank account helps with this.
- Regularly record what you are buying, how much your customers are paying for your goods and services, and quiet and busy periods.
- Up-to-date financial records help to better manage quiet and busy periods, price goods and services correctly, and identify goods and services that are not profitable.

What do I need to consider before applying for funding?

- If you are considering a loan, assess the suitability of the repayment options.
- Look for different options and consider which best suit your business goals and finances. You may want to consider alternative funding options such as stokvels.
- You'll need financial records or statements for a minimum of three months.
- Keep a sound credit history showing that you pay accounts on time.
- In some cases, financiers require collateral in the form of business assets.
- It helps to have legal documentation such as business registration or incoming orders.
- Clearly state why you need the funding, and how it will contribute to your business goals.

¹ <https://www.sars.gov.za/wp-content/uploads/Ops/Guides/PAYE-GEN-01-G17-Guide-for-Employers-iro-Employees-Tax-for-2023-External-Guide.pdf>

² R25,42 per hour as of 1 March 2023