



# DOING BUSINESS IN SOUTH AFRICA: BRANCH OR SUBSIDIARY?

## DEFINITION OF A PERMANENT ESTABLISHMENT

Fixed place of business of an alien firm, such as administrative offices, factory, or workshop, but not necessarily sales offices or storage facilities. Under most double taxation treaties, the income of a firm is taxed in the country where it has permanent establishment only if it carries on there a business of a continuing and lasting kind.

## DEFINITION AND MAIN DIFFERENCES BETWEEN A BRANCH AND A SUBSIDIARY

For all intents and purposes a company owned by a foreign entity (subsidiary) is not different legally from a branch. The requirements on formation are the same.

When it comes to taxation both a branch and a company will pay tax at 28% and only a company, not a branch is subject to dividends tax which is levied at 15%.

## TAX AND ACCOUNTING OBLIGATIONS

Value-added tax (VAT) is levied on the supply of goods and services by registered vendors throughout the business cycle. Effectively, the tax is levied on the value-added by an enterprise. VAT is also levied on the importation of goods as well as on the supply of imported services into the Republic. VAT is levied at the standard rate of 14%, but certain supplies are subject to the zero-rate or are exempt from VAT. VAT is levied on an inclusive basis, which means that VAT has to be included in all prices on products, price lists, advertisements and quotations.

For more information, guideline and summary of each tax or tax system in South Africa (i.e. Tax rates: Companies, Turnover tax: Micro businesses, Small business corporation etc.), visit: [www.sars.gov.za/](http://www.sars.gov.za/).

South African Tax is determined by the Minister of Finance when he delivers his budget speech in February each year, when the tax year ends.

## REGISTRATION FORMALITIES

Business owners have legal responsibilities like paying taxes, obeying labour law (regulations regarding employees) and obtaining the necessary licences or permits. As an entrepreneur, it is your responsibility to know the legal requirements affecting your business and to understand what your form of business can and can't do according to the law.

Depending on the size and type of your business, you may also have to:

- register with the South African Revenue Service for Value Added Tax, company tax and employee tax
- register your employees for unemployment insurance workers' compensation, a provident fund or a medical scheme, (the last two are not compulsory)

All South African companies are governed by the Companies Act, which lays down the procedures to be followed when forming a private or public company. The Companies Act is administered by the Companies and Intellectual Property Registration Office (CIPRO), based in Pretoria. For more information, visit: [www.cipro.org.za](http://www.cipro.org.za).



### Business Registration

Once you've decided on the form of your business, you must register it. Registration has several steps, depending on the form you've selected, but usually includes some combination of the following:

- reserving a name
- lodging a founding statement
- filing the memorandum of incorporation
- open a bank account
- register for appropriate taxes (see above)

Registering your business is not very complicated when assisted by a qualified person.