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## BUSINESS ENVIRONMENT

### THE CONSUMER

#### Consumer Profile

The population in South Africa is relatively young, with a median age of 28.1 years. The number of inhabitants has increased by 1.2% in 2021. However, the population is gradually ageing. About 44.9% of the population is under 25 years old, 42.5% is 25 to 54 years old, and 12.6% is over 55 years old (Data Reportal). The average number of people per household is 3.4 (ESRI, 2021). There are more women (50.8%) than men in South Africa. The South African government estimates that 80.9% of the population is black, 8.8% mestizo, 7.8% white and 2.6% Asian. The inhabitants are 68.3% in urban areas. The provinces of Gauteng and KwaZulu-Natal respectively account for 26.3% and 19.1% of the population, and the major cities in terms of density are the cities of Johannesburg, Cape Town and Durban. The level of education in the country has been judged to be among the lowest in the world by the OECD. Only 48% of adults aged 25-64 have completed upper secondary education, lower than the OECD average of 79%; and only 7% of the 25-64 years old have attained a bachelor's or equivalent tertiary education degree. The level of below upper secondary attainment among 55-64 year-old is very high, at 68.6% (OECD, 2020). Moreover, the level of education varies according to ethnic origin. Only 4.8% of the Black and 5% of the Métis had a degree in 2020, compared to 26.8% of the White and 15.1% of the Asians. Similarly, 'some secondary education' is the highest level attained by 41% of the Black, 43.3% of the Métis, 21.7% of the Asian and 12.1% of the White (South Africa Department of Higher Education and Training). Basic occupations account for 24.9% of the labour force, sales and service occupations 14.8%, crafts tradesmen 10.4%, office workers 9.4%, technicians 8.7%, managers 8.6%, plant and machine operators 8.5%, workers 6.5%, professionals 6.4% and farmers represent 0.5% (Stats SA, 2021).

#### Purchasing Power

According to the World Bank, the PPP per capita GDP in South Africa amounts to \$ 13,360 in 2020. South African households had an average disposable income of about USD 9,338 in 2021 (OECD). The purchasing power is very limited for many inhabitants, since more than half of the population lives below the national poverty line and the unemployment rate is very high (33,6% in 2021). Social and income inequalities are high in South Africa and the Gini coefficient for total net wealth inequality stands at 0.76 in 2019 (0 being the minimum level of inequality, 1 the maximum, World Bank). South Africa suffers among the highest levels of inequality in the world, with high unemployment, especially among young people (over 50%), being one of the main causes of inequality. Women earn 38% less than men (World Bank). In addition, the white population represents slightly more than 10% of the labour force, but earns almost 3 times the average salary of the black population, constituting nearly three quarters of the total labour force. Black people represent the majority of the country's jobless at more than 39%, compared with a rate of 8.8% for white people (Stats SA 2021).

#### Consumer Behaviour

Due to minimal increases in wages and rising prices, consumers sometimes have tight budgets. Consumption is not as massive as in Western countries and South Africans tend to watch their finances and curb spending. The perception of the price / quality ratio is generally the main purchase factor for a South African consumer. To

increase their savings, some purchases are sometimes pushed back, prices are compared and consumers are ready to move away to do better business. Purchases are increasingly made at discounters or using different channels. Modern retailers are no longer preferred to small traders and informal traders. The level of consumer confidence is low. Internet penetration has been rising in recent years and this is reflected in the evolution of online sales. The increase in online retailing has influenced the way in which South African consumers buy their goods in-store. Since social media has been recognized as a major source of influence, retailers are increasingly using such platforms to build their reputation. Consumers are encouraged to buy on the internet because of lower prices and free. Data protection is often a topic of interest to consumers. Also, 70% of South Africans worry that they will not be able to protect their personal and financial data while many fear cyber-attacks. Consumers tend to favour national companies, especially in the fashion sector. However, they are relatively open to international companies, especially Western ones. Consumers tend to be loyal to brands, only if the price charged by the company is right.

Some trends have emerged recently in South Africa driven by consumers wanting to reduce their spending. First, cocooning is developing, entertainment is increasingly at home rather than in shopping malls, clubs and other establishments. This is also the consequence of rising fears for personal safety. Inexpensive Experiences like going to the beach are increasingly preferred to material goods as are listening to music or watching sports events on TV. The adoption of a more responsible mode of consumption is under development. Indeed, transparency and authenticity are two factors that can push a consumer to make a purchase. In a country characterized by extreme economic inequality between rich and poor, consumers are becoming socially aware and tech-savvy, they are attracted to companies that act as a force for positive change. In South Africa, industry pioneers such as Discovery, Unilever and Woolworths are driving this trend. The young population is more concerned than the rest of the population by the issues of eco-citizenship and the preservation of the planet. The second-hand market is growing in the country, and it is estimated that 15% of the South African population sells used products online (fashion items, phones, DVDs, CDs, books and electronics), and this figure is increasing. Collaborative platforms such as Airbnb and Uber are expanding in the country.

### **Consumer Recourse to Credit**

Credit and debit cards as well as online payments are the most common means of payment in South Africa. In order to meet consumption needs, the majority of households use indebtedness and loans to households have increased in 2018. However, due to the recession and rising over-indebtedness, consumers tend to concentrate on the repayment of their debt rather than on new large purchases. In addition, private loans and loans outside the formal system are common in South Africa, and the situation of over-indebtedness may be more serious than the figures published by the government. There are more than 24 million credit consumers. Credit, personal loan, car loan and mortgage loans are estimated at 17.9 million with assets of 1.57 trillion Rand. The loans are used to finance real estate projects, to offset the cost of living, to purchase cars. With the recession, consumers should continue to use consumer credit to finance themselves other than savings, and this could continue to increase the country's over-indebtedness.

### **Growing Sectors**

Technologies, mobile phones, connected objects, security equipment, photovoltaic panels, prepared and takeaway meals, home and office delivery services, fruits and vegetables, clothing and footwear, jewelery.

### **Consumers Associations**

[Parliamentary Oversight Group](#) , in English

[National Consumer Commission](#) , in English

[Credit Bureau Association](#) , in English

## IMPORTING & DISTRIBUTING

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### Import Procedures

South Africa has a complex import procedure. South African Revenue Service (SARS) has about 90 000 product codes that strictly apply to all imports. Foreign exporters are strongly encouraged to seek a local agent for customs clearance with a good understanding of South African legislation.

Customs SA, a division of SARS, requires importers to register and obtain a SARS importer code. SARS uses a Single Administrative Document (SAD) to facilitate custom clearance for importers, exporters and cross-border traders. The SAD is a multi-purpose goods declaration form that covers imports, exports, cross-border and transit movements. The following documents are required to obtain the SAD:

- One negotiable and two non-negotiable copies of the Bill of Lading.
- A Declaration of Origin Form, DA59, is to be used in cases where a rate of duty lower than the general rate is claimed as well as for goods subject to antidumping or countervailing duty.
- Four copies and one original Commercial Invoice. Invoices from suppliers are not accepted as satisfying the requirements of the customs regulations unless they meet certain requirements of the SARS (see SARS website for more information).
- One copy of the insurance certificate (for sea freight)
- Three copies of the Packing List. Data contained in this document should agree with that in other documents.

After registering as an importer with the South African Revenue Service (Sars), one can apply for an [import permit](#) from the International Trade Administration Commission (ITAC), which ensures that imported goods comply with the country's safety, quality, environmental and health requirements. They must also comply with the provisions of international agreements.

Please visit the website of the [South African Revenue Service](#) for more information.

### Specific Import Procedures

There are certain restricted items which require import licenses. A license (permit) is only valid in respect of the goods of the class and country specified. It is non-transferable and may only be used by the person to whom it was issued.

Import permits are valid only for the calendar year in which they are issued. Import permits required for specific categories of restricted goods are obtainable from the Director of Import and Export Control at the Department of Trade and Industry.

### Distribution channels

One of Africa's largest and most affluent markets, South Africa has a well-developed retail sector, including a number of major domestic players. The emergence of supermarkets and hypermarkets, which sell large quantities of nearly all consumer goods on a self-serve basis, has resulted in major developments in the distribution sector in South Africa; however, traditional grocery retailers are still widespread.

According to Stats SA, retail sales reached 1.166 trillion rands in 2021. The sector recorded a positive growth performance – spending on retail increased by 6.4% in 2021 compared to the previous year in value terms, in the context of economic recovery. General dealers are responsible for 42.7% of sales, the second largest contributor was stores specialising in clothing and textiles (18.2%) and finally stores specialising in hardware, paint and glass (8.3%) (Stats SA, February 2022). Over one-third (38.7%) of the 1 million individuals working in retail were employed in non-specialised stores, although recording the lowest salaries in the sector. According to latest data available by USDA, the retail market growth in South Africa is mostly driven by discounters (7% growth in 2020) and hypermarkets (7%). The other formats of stores are still growing, but at a slower pace : supermarkets (5%) and convenience stores (3%). Traditional grocery retailers' sales decreased by -15%.

### Distribution market players

Although the black middle class with considerable disposable income has expanded in recent years in South Africa, major income disparities persist. The major share of South Africa's consumer market is divided into two parts: a market for those with high spending power (a majority of whites and newly affluent blacks), and a market for those with very limited spending power (the majority of blacks).

The majority of retail sales takes place in shopping centres, groups of small shops, department stores (Stuttafords, Edgars, Woolworths), supermarkets (Checkers, Pick' n Pay) and hypermarkets (Makro). Traditional shops remain active, in particular outside of major cities, but do not represent a big share of the market and are mainly used by poorer segments of the population.

The main retailers in South Africa are Shoprite Holdings, Pick' n Pay Retailers, Spar Group, Massmart (Walmart-owned), and Woolworths Holdings, together accounting for about 80% of all retail sales (USDA).

### Retail Sector Organisations

Fuel Retailers' Association

South African Council of Shopping Centres

Consumer Goods Council of South Africa

## OPERATING A BUSINESS

### Type of companies

#### Private Limited Liability Company

**Number of partners:** Minimum: 1, no upper limit.

**Capital (max/min):** No legal limit.

**Shareholders and liability:** Liability limited to amount of capital contributed.

#### Public Limited Liability Company

**Number of partners:** Directors: minimum of 3, no upper limit.

Shareholders: minimum of 1, no upper limit.

**Capital (max/min):** No legal limit.

**Shareholders and liability:** A member's liability is limited to the par value of the shares he/she owns.

#### Private Company

**Number of partners:** 1 partner.

**Capital (max/min):** No minimum capital.

**Shareholders and liability:** The active partner's liability is unlimited.

## Partnership

**Number of partners:** Minimum 2, Maximum 20 partners.

**Capital (max/min):** No minimum capital.

**Shareholders and liability:** The active partner's liability is unlimited. Associates' liability is limited to the amount of capital they contributed.

Setting Up a Company	South Africa	Sub-Saharan Africa
Procedures (number)	7.0	7.5
Time (days)	40.0	21.3

Source: *Doing Business* - Latest available data.

## Cost of Labour

### Minimum Wage

The National Minimum Wage (NMW) for each ordinary hour worked is R23.19.

### Average Wage

According to the latest survey by Stats SA, average monthly earnings were measured at R23,982 in the formal non-agricultural sector of the economy in November 2021. This is a 0.3% increase compared with August 2021, and an annual increase of 3.9%.

### Social Contributions

**Social Security Contributions Paid By Employers:** South Africa does not have a comprehensive social security system or a national healthcare program; consequently, no significant social security taxes are levied. Employers are obligated to make contributions to an unemployment insurance fund at the rate of 1% of gross remuneration.

**Social Security Contributions Paid By Employees:** 1% contribution of unemployment insurance fund.

## Intellectual Property

### National Organisations

The national organisation for the protection of trademarks and patents is the [CIPC](#) (Companies and Intellectual Property Commission).

The [South African Institute of Intellectual Property Law](#) is another organisation.

South Africa signed the [Paris Convention](#) for the protection of industrial property, as well as the agreement establishing the [World Intellectual Property Organisation \(WIPO\)](#).

### Regional Organisations

[African Regional Intellectual Property Organisation \(ARIPO\)](#)

### International Membership

## TAX RATES

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### Consumption Taxes

#### Nature of the Tax

VAT = Valued Added Tax (BTW = Belasting over de Toegevoegde Waarde in Afrikaans).

#### Tax Rate

15%

#### Reduced Tax Rate

Zero-rated items include exports of goods and related services; international transport of passengers and goods and related services; certain supplies of goods that are used exclusively in an export country; services supplied outside South Africa and to foreign branches and head offices; services supplied directly in connection with land or any improvement thereto outside South Africa; certain services supplied to nonresidents; services deemed to be supplied to a public authority or municipality; certain basic foodstuffs; sanitary towels (pads); illuminating kerosene and leaded and unleaded gasoline; supply of gold coins issued by the reserve bank; supply of an enterprise capable of separate operation as a going concern (provided that all of the requirements are met); supply of fuel levy goods and certain fuels obtained from crude to be refined to produce fuel levy products; receipt of certain grants; supply of intellectual property for use outside of South Africa; supply of services to nonresidents subject to certain provisions.

### Other Consumption Taxes

Other indirect taxes include: custom duties (on certain luxury items); anti-dumping and countervailing duties; excise duties on tobacco, alcoholic beverages, fuel and petroleum products; and excise levies on fuel, road accidents, electricity, sugar and tyres.

Transfer duty is levied at progressive rates up to 13% on the acquisition of an immovable property, provided that the transaction is not subject to VAT.

Donations are taxed at a rate of 20% (if the value of the property does not exceed ZAR 30 million) or 25% (value above ZAR 30 million), with an annual exemption of ZAR 10,000 available for companies (public companies are exempt from the tax).

### Corporate Taxes

#### Company Tax

27% (for tax years ending on or after 31 March 2023; was 28% before)

#### Tax Rate For Foreign Companies

A company is considered to be resident in South Africa if it is incorporated, established, or formed in South

Africa or has its place of effective management in the country (meaning by this the place where key management and commercial decisions that are necessary for the conduct of its business as a whole are taken).

### **Capital Gains Taxation**

Only 80% of capital gains are included in taxable income and taxed at the normal income tax rate (thus the resulting effective tax rate stands at 22.4% for tax years ending before 31 March 2023 and 21.6% for tax years ending on or after that date). A resident is liable for the capital tax on assets located both in and outside South Africa, while a non-resident is liable to capital tax only on immovable property in South Africa or assets of a permanent establishment in the country.

### **Main Allowable Deductions and Tax Credits**

In general, expenses incurred for the purposes of income generation are deductible.

The majority of taxes (with the exception of income taxes, donations tax, withholding taxes on interest, and dividends tax) are deductible from a company's taxable income, provided they qualify for deduction under general rules. Losses may be carried forward indefinitely, as long as an active trade or business of a similar nature is carried on without interruption. For tax years ending on or after 31 March 2023, companies with assessed losses will be entitled to set off a maximum of 80% of such losses (subject to a minimum of ZAR 1 million) against taxable income in a specific year. Loss carrybacks are not allowed.

Special relief is provided for start-up expenditure: when expenses would have been deductible had they been incurred after the commencement of trade, they are ring-fenced and may only be deducted against income from the trade to which the start-up costs relate. In general, interest expenditure incurred in the production of non-exempt income and for the purposes of trade is deductible.

Charitable contributions to certain approved public benefit organisations are tax-deductible (capped at 10% of taxable income).

If a taxpayer has included a certain amount in their taxable income in any tax year, and that amount becomes a bad debt at the end of the year of assessment, it may be tax deductible. Additionally, there is a tax allowance for doubtful debts. In the case of bad debts arising from loaned money, it is deductible only if it was lent as part of a money-lending business. Taxpayers may claim tax deductions for donations made to public benefit organisations that have been approved as charitable organisations, subject to a limit of 10% of their taxable income.

Foreign tax paid on foreign-source income may be credited against South African tax on the same profits, limited to the amount of South African tax payable on the foreign income.

Tax incentives are also provided for small business corporations, R&D, urban development, infrastructure development, public-private partnership grants, environmental expenditure deductions, energy efficiency savings, companies located in Special Economic Zones, etc.

### **Other Corporate Taxes**

Micro-businesses with annual turnovers under ZAR 1 million may elect to be taxed under a **micro-business tax system** instead of the ordinary income tax, provisional tax, capital gains tax and VAT systems (at rates varying between 0% and 3% of turnover). Micro-businesses that qualify for the scheme can voluntarily exit the system at the end of any year of assessment. However, once out of it, they will not be permitted to re-enter.

Other special taxes include a 20% withholding tax on payments made to non-residents, individuals, and trusts for services provided, a 15% withholding tax on foreign entertainers and sportspersons, as well as a withholding tax on the acquisition of South African property by a non-resident. A tax on dividends applies to all South African resident companies as well as non-resident companies listed on the JSE at a rate of 20%.

Municipal taxes, a transfer tax on securities (0.25%), environmental taxes, financial transaction taxes, electricity and fuel levies, and donations taxes also apply (20% of the property with a value up to ZAR 30 million, 25% above this threshold; an annual exemption of ZAR 10,000 is available for companies; public companies are exempt from the donations tax). A skills development levy is payable monthly by the employers at the rate of 1% of payroll (companies with an annual payroll of less than ZAR 500,000 are exempt). Employers also contribute to the Unemployment Insurance Fund (1% of the employee's gross remuneration, capped at ZAR 177.12 monthly) and to the fund for compensation for occupational injuries and diseases (rates vary depending on the sector of activity, salary capped at ZAR 506,473 per year/employee).

Local municipalities levy rates on land based on a percentage of the municipal valuation of land and improvements, which vary from municipality to municipality. Properties zoned for business use are generally taxed at a higher rate.

Transfer duty levied on the sale of immovable property is payable by the person acquiring the property within six months from the date of acquisition. Rates vary between 0% and 13% of the purchase price (the first ZAR 1.1 million is exempt). Transfers of immovable property subject to VAT are exempt from transfer duty.

Several environmental taxes apply, including a vehicle emissions tax, a fuel levy, a tyre levy and an electricity levy.

## **Other Domestic Resources**

[South African Revenue Service](#)

## **Double Taxation Treaties**

### **Countries With Whom a Double Taxation Treaty Have Been Signed**

[South African Revenue Service](#)

## **Withholding Taxes**

Withholding taxes are: 20% for dividends paid to individuals or foreign companies, 0% if paid to national companies; 0 (resident)-15% (non-resident) for interests; 0 (resident)-15% (non-resident) for royalties.

