

Choosing your tax regime for 2026/27: a framework for owner-managed businesses

The 2026 Budget doubled the turnover limit for turnover tax and moved the VAT threshold to the same figure. This paper turns the new rules into one decision framework, with a comparison of what each regime costs across turnover and profit margin.

White paper v1.0

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IN SHORT

- For an owner who draws all the profit, turnover tax is the cheapest regime at profit margins of 15% and above at every turnover from R800,000 to R2.3 million. At margins of 10% and below, normal tax is cheaper.
- A company that pays all its profit out as dividends was never the cheapest option in any of the 30 cases we tested.
- Turnover tax is not open to everyone: professional services above 20% of receipts, personal service providers, labour brokers and certain shareholders exclude a business.
- Both the turnover tax limit and the compulsory VAT threshold are now R2.3 million, so growth past that line changes two things at once.
- Existing businesses can switch before the start of a tax year, so the decision has a date.

Why this paper

Until 1 April 2026, turnover tax was for businesses with turnover up to R1 million. It now covers R2.3 million, the same figure as the new compulsory VAT threshold. That widens the choice for many owner-managed businesses, and it moves a decision that was once for the very smallest businesses into the range where most owners sit.

Our earlier work looked at single comparisons: turnover tax against normal tax, and a sole proprietor against a company. This paper joins them into one framework for an owner who draws

the profit from the business, and sets out the questions to ask in order.

1. The options

Feature	Turnover tax	Normal tax (sole proprietor)	Company (small business corporation rates)
Tax base	Turnover (sales)	Profit	Profit, then dividends
Rates	0% to R600,000, then 1% to 3% of the excess, in bands	18% to 45%, less a R17,820 rebate	0%, 7%, 21%, then 27%, plus 20% dividends tax on payouts
Who can use it	Turnover up to R2.3 million and none of the exclusions	Anyone	Companies meeting the small business corporation tests
Deductions	None	Yes	Yes
Losses	Tax is charged whatever the profit	A loss reduces tax	A loss reduces tax

Turnover tax also replaces provisional tax, capital gains tax and dividends tax for the business. VAT is a separate system and is unaffected.

2. What each regime costs

We compare the three regimes for an owner who draws all of the profit, using the 2026/27 rates. The first table shows the detail at R1.2 million of turnover.

Profit margin	Profit	Turnover tax	Normal tax	Company tax	Company, all paid out
5%	R60,000	R8,500	R0	R0	R12,000
10%	R120,000	R8,500	R3,780	R1,470	R25,176
15%	R180,000	R8,500	R14,580	R5,670	R40,536
20%	R240,000	R8,500	R25,380	R9,870	R55,896
30%	R360,000	R8,500	R56,172	R18,270	R86,616
40%	R480,000	R8,500	R92,217	R42,770	R130,216

Turnover tax stays at R8,500 whatever the profit. Normal tax rises with profit. A company's tax is lower than normal tax but rises again once dividends tax is added.

The second table shows the cheapest of the three for turnover between R800,000 and R2.3 million and for margins from 5% to 40%.

Turnover	5%	10%	15%	20%	30%	40%
R800,000	Normal tax	Normal tax	Turnover tax	Turnover tax	Turnover tax	Turnover tax
R1,200,000	Normal tax	Normal tax	Turnover tax	Turnover tax	Turnover tax	Turnover tax
R1,600,000	Normal tax	Normal tax	Turnover tax	Turnover tax	Turnover tax	Turnover tax
R2,000,000	Normal tax	Normal tax	Turnover tax	Turnover tax	Turnover tax	Turnover tax
R2,300,000	Normal tax	Normal tax	Turnover tax	Turnover tax	Turnover tax	Turnover tax

Two patterns are clear. Turnover tax is cheapest from a margin of about 15% upward, and normal tax is cheapest at 10% and below, where profit falls under or close to the tax-free threshold. A company that pays out its profit is never the cheapest, because dividends tax on top of company tax outweighs the lower rate.

3. The framework

Work through these questions in order.

1. **Do you qualify for turnover tax?** Your turnover must be R2.3 million or less. You cannot use it if more than 20% of receipts come from professional services, if you are a personal service provider or labour broker, if more than 20% of receipts are investment income or rent, or if a company has a shareholder who is not a natural person. Businesses that previously opted out are excluded too.
2. **What is your profit margin?** At 15% and above, turnover tax is likely cheapest. At 10% and below, normal tax is likely cheaper.
3. **Do you expect a loss, or a large deductible cost?** Turnover tax gives no relief for either. Big equipment purchases, start-up losses and heavy costs point back to normal tax.
4. **How close are you to R2.3 million?** A business heading past the turnover tax limit will have to move to normal tax, and at the same figure it must register for VAT. Do not choose a regime that you will leave within a year.
5. **Do you draw or retain?** If you keep profit in a company for growth, company tax alone applies, which is lower than normal tax. If you draw it, the comparison above applies. See our guide to sole proprietor or company.
6. **What matters besides tax?** Limited liability, credibility with customers and funders, tenders and the ease of bringing in a partner can outweigh a tax saving.

4. When and how to switch

- **Existing businesses** can register for, or switch to, turnover tax before the start of a new tax year. For an individual, the year starts on 1 March, so the next opportunity is before 1 March 2027.
- **New businesses** must apply within two months of starting.
- **Payments:** turnover tax is paid in two instalments, six months into the tax year and at the end of it, followed by a return after year end.
- **Leaving:** a business that exceeds the limit moves to normal tax. Plan the transition and the records it needs.

5. Traps to avoid

- Choosing turnover tax for a thin-margin business because it looks simple.
- Forgetting that turnover tax gives no deduction for a loss.
- Ignoring the R2.3 million line that triggers VAT registration. Read our VAT guide.
- Incorporating for tax reasons and then drawing all the profit.
- Treating a personal service company as if it could use the lower company rates.

6. Method and limits

The comparison uses the 2026/27 personal tax tables, the small business corporation rates and the turnover tax bands published by SARS, and dividends tax of 20%. It assumes a sole proprietor under 65, no other income, no deductions beyond the rebate, and a company that qualifies for the small business corporation rates and pays out all its profit in the "paid out" column. Real cases differ. Use this framework to narrow the choice, and ask for a calculation on your own numbers before you decide. We welcome corrections and will record them in a new version.

Version history

Version	Date	Change
1.0	30 September 2026	First release.

Sources and further reading

- Budget 2026 Frequently Asked Questions (turnover tax, personal tax tables, small business corporation rates, VAT thresholds), [South African Revenue Service](#)

- Dividends Tax, South African Revenue Service
- Which tax regime fits your small business in 2026/27?, TBL Accounting
- Turnover tax break-even margins for micro businesses, TBL Accounting
- Sole proprietor or company? Tax compared at different profit levels for 2026/27, TBL Accounting

Cite this paper

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