

Turnover tax break-even margins for micro businesses: when is it cheaper than normal tax?

Turnover tax now covers businesses with turnover up to R2.3 million. We work out the profit margin at which it costs less than normal tax, so an owner can tell in one step which side of the line their business sits on.

Working paper v0.1

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8 min read

IN SHORT

- For a sole proprietor, turnover tax is cheaper than normal tax once the profit margin exceeds roughly 12% to 14%, at every turnover level we tested from R800,000 to R2.3 million.
- Against a small business corporation that keeps its profit, the break-even margin is higher, between about 16% and 23%. If the company pays the profit out as dividends, turnover tax wins at very low margins.
- Below R600,000 of turnover, turnover tax is zero, so it can never cost more than normal tax.
- The comparison ignores deductions, losses and VAT. Businesses that expect a loss or have large deductible costs should do their own calculation.

The question

Turnover tax replaces the calculation of profit with a small percentage of sales. From 1 April 2026 it is open to businesses with turnover up to R2.3 million. Our guide to choosing a tax regime says turnover tax suits high-margin businesses and can cost more for low-margin ones. Here we ask a narrower question: **at what profit margin does the answer switch?**

The model

We compare the tax payable on the same business under three regimes, using the 2026/27 rates.

- **Turnover tax (TT):** 0% up to R600,000 of turnover, 1% of the amount above R600,000 up to R950,000, R3,500 plus 2% of the amount above R950,000 up to R1.4 million, and R12,500 plus

3% of the amount above R1.4 million.

- **Normal tax for a sole proprietor:** profit is taxed at personal rates for a person under 65, less the R17,820 rebate.
- **Small business corporation (SBC), profit retained:** company tax at the SBC rates (0%, 7%, 21%, then 27%), with no dividend paid out.

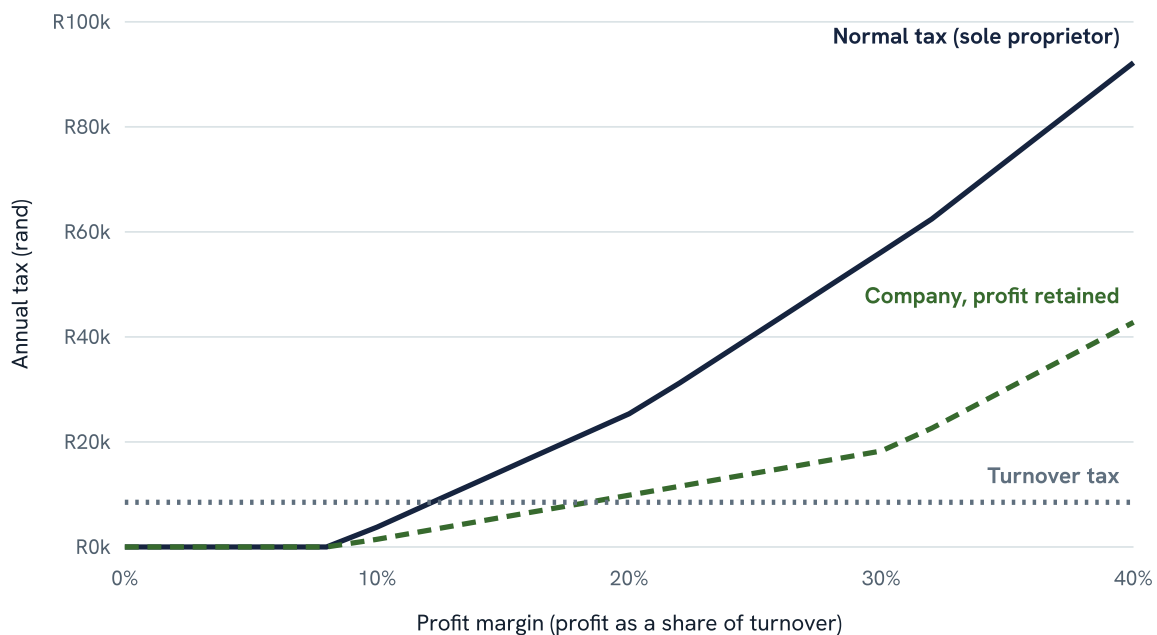
Turnover is T and profit is P, so the profit margin is $m = P / T$. Turnover tax depends only on T.

Normal tax and company tax depend on P. The break-even margin is the value of m at which normal tax (or company tax) equals turnover tax.

Results

Turnover	Turnover tax	Break-even margin against normal tax	Break-even margin against SBC, profit retained
R800,000	R2,000	13.8%	15.9%
R1,000,000	R4,500	12.4%	16.3%
R1,200,000	R8,500	12.2%	18.4%
R1,600,000	R18,500	12.6%	22.7%
R2,000,000	R30,500	13.1%	21.1%
R2,300,000	R39,500	12.9%	20.2%

Read across a row. At R1.2 million of turnover, turnover tax is R8,500. A sole proprietor's normal tax equals R8,500 at a profit of about R146,000, a margin of 12.2%. Above that margin, turnover tax is cheaper. Below it, normal tax is cheaper, and at a margin under about 8% a sole proprietor pays no tax at all, because profit is below the R99,000 tax-free threshold.



Annual tax at R1.2 million of turnover, by profit margin, under three regimes. The point where a line crosses turnover tax is that regime's break-even margin.

If the company pays out its profit

Dividends tax of 20% applies when a company pays profit out. Once that is included, a company that distributes all its profit pays more than turnover tax at very low margins: about 1.2% at R800,000 of turnover, rising to about 7.7% at R2.3 million. In practice, an owner who draws the profit from a company and is eligible for turnover tax will almost always pay less under turnover tax.

Reading the result

1. **High-margin, low-cost businesses gain most**, for example service and trading businesses with modest costs.
2. **Thin-margin businesses gain least or lose**. A business below roughly a 12% margin does better on normal tax.
3. **The margin is a range because the personal tax brackets are not flat**. It sits between about 12% and 14% for sole proprietors across the range we tested.

Limits

- **Deductions.** Normal tax is computed after deducting costs, and we set profit as a margin on turnover without other deductions such as retirement contributions or medical credits. Those lower normal tax and move the break-even margin up.
- **Losses.** Turnover tax is charged even in a year with no profit, and gives no loss to carry forward. A business that expects losses should model them.

- **Eligibility.** Businesses with more than 20% of receipts from professional services, personal service providers and labour brokers, and those with more than 20% of receipts from investment income or rent, cannot use turnover tax.
- **VAT.** Turnover tax and VAT are separate systems and VAT is not modelled.
- **Other taxes.** Turnover tax also replaces provisional tax, capital gains tax and dividends tax for the business. We assumed a sole proprietor has no other income.

What we would like challenged

- How much do typical deductions in your industry move the break-even margin?
- Do owners in practice retain profit in the company, or draw it?
- How large is the compliance saving from turnover tax, which we have not priced?

Send corrections or counter-evidence using the link below.

Version history

Version	Date	Change
0.1	30 September 2026	First release.

Sources and further reading

- Budget 2026 Frequently Asked Questions (turnover tax bands, personal tax tables, small business corporation rates), [South African Revenue Service](#)
- Dividends Tax, [South African Revenue Service](#)
- Which tax regime fits your small business in 2026/27?, [TBL Accounting](#)

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Challenge this paper

This is a working paper: the method and limits are stated so you can test them. Send corrections or counter-evidence to info@tblaccounting.co.za and we will record them in the version history.

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