

# Small businesses urged to 'go solar' following the 2023 Budget Speech

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If anything, the 2023 Budget Speech revealed it was that devising a targeted plan to solve South Africa's ongoing energy crisis remains the government's top priority. The immediate future will see a concerted and collective focus on bringing together the public and private sectors in a bid to fuel the clean-energy transition and end loadshedding. For small businesses looking to ride this wave on the path to post-pandemic recovery, the key is to "go solar".



This is the opinion of Jeremy Lang, chief investment officer at independent small- and medium-sized enterprise (SME) financier, Business Partners Limited. Prior to the Budget Speech, Lang aired hopes that "large-scale interventions" would be on the cards for the small business sector in the form of much-needed relief measures.

In light of the almost single-minded focus on boosting embedded generation efforts through various fiscal measures and policy reforms, this year's speech delivered little in the way of SME-specific relief. It did, however, propose several measures that speak to the urgent need for government to address the resounding impact that rolling blackouts have had on small businesses.

On this, Lang suggests that South African small businesses review the viability of installing solar energy systems to power their operations. "Not only will this help to alleviate pressure on the national grid, but it will also ensure business continuity – a vital factor given that loadshedding will likely persist for a long while longer. This could also bring good news for small businesses in the formal sector, who will realise gains in the form of a 125% deduction in tax in the first year for all renewable energy projects," says Lang.

Further state-led interventions aimed at benefiting the SME sector include the government's proposal to provide solar-related loans for small and medium enterprises on a 20% first-loss basis.

"What this means essentially is that going forward, small businesses will be able to secure loans from finance providers where the National Treasury will assume 20% of the initial loss. This will help to mitigate the total risk on behalf of lenders and hopefully make these loans more accessible to a wider base," explains Lang.

This development will likely form part of the proposed Energy Bounce Back Scheme, set to launch in April 2023 – an

extension of the Bounce Back scheme initiated during the pandemic years to assist SMEs in recovering Covid-19-related losses. On the effectiveness of this particular measure, Lang remains hopeful that the new solar-directed slant of the scheme will attract more uptake than its predecessor which saw only R140m in loans being approved and R77m disbursed of the proposed R15bn.

“This is where the cooperation of state entities, governmental departments, private sector players and financiers will play a crucial role in reaching out to the thousands of small businesses in need of relief, facilitating a streamlined loan application process and deploying funds efficiently,” says Lang.

Overall, government’s R5bn investment into the expansion of the renewable energy tax incentive is a welcomed development, in tandem with the decision not to increase fuel levies.

Additionally, this year’s extended Budget Review revealed that the Department of Small Business Development has been allocated R2.8bn as part of a fund to support 12,000 townships and rural enterprises. The measures on which these funds will be spent remain unclear, but as Lang asserts, “a meaningful impact on informal SMEs and the economy can be made by funding a concerted effort to formalise the many township and rural businesses that exist in South Africa.

In pushing the agenda to formalise these businesses, government will achieve the dual purpose of providing more support and regulatory protection to small businesses, while expanding the tax base.”

Missing from this year’s Budget Speech was mention of any forthcoming adjustments to the Employment Tax Incentive (ETI) – a policy that Lang suggested should be revised as a way of directly addressing the problem of record-high youth unemployment.

Ahead of the speech, Lang had hoped for another increase over and above the maximum monthly value of R1,500 as per last year’s Budget Speech. It would also be advisable for government to revise the applicable age bracket of the ETI to 35 and expand the designated list of special economic zones to include more under-resources communities across all nine provinces.

On this Lang believes the temporary diversion of focus to a more consolidated effort to solve the energy crisis is well-warranted and that a “solution that includes and benefits small businesses is a solution that benefits all South Africans”.

As he concludes: “In light of the changes that are afoot in South Africa’s tax regime, small business owners would do well to seek the advice and guidance of tax professionals and remain informed, via the available knowledge bases, to understand how they can make the most of the tax-related benefits on offer for the foreseeable future, this is where further relief will stem from.”

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