

Setting up a Bed and Breakfast in South Africa

So you have converted your spare room and decided to set up a Bed and Breakfast. All seems easy until you start thinking about the financial and administrative issues. Should I set up a company? What records must I keep? What do I tell the taxman? What statutory requirements must I company with?

If you don't sort these issues out at the outset, your ideas to make a little spare cash may backfire into a smouldering mass of bureaucratic difficulties that will make you wonder why you ever started.

So what are the issues?

1. Structure

Do you set up a company or a close corporation?

This is not necessary – you can run your business as a sole proprietor or in partnership with your spouse. However there are some advantages that come with trading through a company or close corporation – the main one being able to limit your personal liability in the event of some disaster affecting the business. However, this comes at a cost. You will need to appoint an auditor (in the case of a company) or an accounting officer (in the case of a close corporation) who will sign off a set of financial statements that you will have to produce. You will be obliged to keep accounting and statutory records in each case that comply with the legislation governing these two entities. Usually your auditor or accounting officer will assist you to ensure that the requirements are met, but expect this to cost.

2. Tax

You will need to register a company or close corporation with SARS and submit a tax return annually together with provisional tax returns twice a year. If you conduct the business in your personal capacity or in partnership, you will also have to register as a taxpayer if you are not one already, and submit details of all income and expenditure to SARS annually.

3. Employment

If you employ any staff to assist you in this venture, you will need to comply with the Basic Conditions of Employment Act. This means providing your staff with a formal letter of appointment/contract and providing them with the benefits they are entitled to in terms of this Act. You will also have to register with SARS as an employer for PAYE purposes, deduct PAYE from the remuneration paid to your staff, and submit a monthly return to SARS together with payment of the PAYE deducted.

In addition you will have to register as an employer and each employee with the Department of Manpower and submit to them a monthly return together with payment of the statutory contributions into the Unemployment Insurance Fund.

There is a requirement to register your business with the Workman's Compensation Commissioner and pay across an insurance premium to protect you from any claim your employees may have should they have an injury arising from an accident whilst on duty.

4. **Vat**

You only need to register with SARS for VAT if your annual turnover exceeds R300,000, in which case you will be obliged to add VAT to your guest's bills, and pay this VAT across to SARS.

You will, however, be able to deduct any VAT that you have paid on any purchases you have made, from your payment to SARS.

The above represent some of the issues to look out for when starting up a Bed and Breakfast business. All of them can be easily attended to by a competent professional accountant, who will allow you to focus on ensuring your guests have a pleasant stay.

The above article was prepared by David J Phillips, Chartered Accountant. You are advised to seek professional assistance to ensure that your business is fully compliant with the legislative requirements that may affect your business.

David can be contacted on 011 496 3118 or dave@automaticaccounting.co.za