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Research Article

The effects of sin tax on the profitability of SMME convenience stores in the Cape Metropole

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Abstract

Small Micro Medium Enterprises (SMMEs) contribute significantly to the South African Gross Domestic Product (GDP) and play a critical role in job creation and poverty alleviation. Prior research shows that objectives relating to job creation and poverty alleviation are not successfully being met as approximately 75% of newly created South African SMMEs fail after operating for an average of 3 years – one of the worst failure rates in the world. This high failure rate is perceived to be attributed to a magnitude of economic factors e.g. shortage of skills, economic uncertainty, crime, legislation and taxation among others. Encapsulated within legislation and taxation is the burden of tax compliance and governmental regulation which diverts SMME leaders' attention away from core business operations. In South Africa, sin tax (a mandatory form of excise taxation), is levied on products considered to be socially undesirable such as tobacco related products and plastic bags. At present time, the taxation levied on tobacco products is 45% per unit sold, while the taxation levied on plastic bags is 6 cents per plastic bag sold. The main objective of this study was to determine the effects of sin tax on SMME profitability. This research was exploratory in nature, and took the form of quantitative research. A total of 47 responses were obtained from SMME leaders of convenience SMME stores from where all data were analysed through means of descriptive statistics. Findings indicated that sin tax has a direct adverse effect on the profitability of convenience SMMEs stores within the Cape Metropole.

Key words: Sin Tax, Excise Duty, South Africa, SMMEs, Convenience Stores, Profitability, Cape Metropole.

INTRODUCTION

Small Micro Medium Enterprises (SMMEs) in South Africa are formally defined by the Small Business Act No. 102 of 1996 as business entities, including co-operatives, which are managed and/or owned by one or more owner(s), and operates within any sector and/or sub-sector of the national economy (South Africa, 1996). Furthermore, in the same Act, it is specified that SMMEs can be categorised in terms of size, as either micro, very small, small or medium in respect of: (1) the number of employees employed, (2) the total annual revenue made, and/or (3) the total gross asset value (excluding fixed property).

Table 1. Categorisation of SMMEs in the Fast Moving Consumer Goods industry in terms of size (South Africa 1996)

Size	Number of employees employe Including the owner and/or manager	Annual revenue made	Total gross asset value (excluding fixed property)
Micro	1 – 5	Up to R0.15m	Up to R0.10m
Very Small	6 – 10	R0.16m – R2.00m	R0.11m – R0.40m
Small	11 – 49	R2.01m – R10.00m	R0.41m – R2.00m
Medium	50+	More than R10.01m	More than R2.01m

The above criteria are shown in Table 1. The main objective of South African SMMEs, according to Mabesele (2009), is to assist in national economic growth through means of creating jobs and alleviating poverty. Abor and Quartey (2010) concur with the latter when stating that South African SMMEs are responsible for contributing between 52% and 57% of the national Gross Domestic Product (GDP) and are responsible for providing up to 61% of all local employment opportunities. Despite the aforementioned, prior research shows that these South African SMMEs are not achieving their objectives as much as they ought to. Van Eeden *et al.*, (2003) are of the opinion that an estimated 70 to 80% of South African SMMEs fail within their first 3 years of existence, while in more recent times, Fatoki (2012) avers that approximately 75% of South African SMMEs fail within their first 42 months of operation. Neneh (2012) places the latter in perspective when mentioning that the number of South African SMME that fail, particularly taking into account the past 5 years, can easily range between 50 and 95% - a SMME failure rate that is regarded as one of the highest in the world.

More often than not, the blame for the high South African SMME failure rate is attributed to macro-economic factors (external variables that are beyond the control of an enterprise leader) and micro-economic factors (internal variables that are within the control of an enterprise leader). Brink *et al.*, (2003) express the view that the most prevailing economic factors which are believed to adversely influence South African SMMEs relate to the economic landscape of an economy, unemployment, crime, technological advances, shortage of management skills, economic uncertainty, legislation and taxes just to mention but a few (Neneh 2012; Bruwer and Watkins, 2010).

It is important for any newly developed SMMEs to become a going concern enterprise Olawale and Grawe (2010). These entities are of vital importance to the economic prosperity of any economy – as without SMMEs any economy risks economic stagnation. Internationally this principle is recognized and all national governments of the worlds' leading economies actively support SMMEs by way of, among others, the adoption of

tax related policies providing preferential treatment to newly established SMMEs (Worku 2013).

Unfortunately, especially in South Africa, newly established small businesses must comply with legal requirements such as registering with the South African Revenue Service (SARS), paying registration fees, license fees and taxes. In essence, the latter has a major influence on the overall development of South African SMMEs to become established enterprises. Over-prescribed governmental legislation and detailed taxation policies for SMMEs, has an adverse influence on the profits earned by these entities (Cant and Wiid 2013). In a general sense, the aforementioned essentially alludes to the perception that no SMME can attain optimal profitability (and strive to become established enterprises) when there is an over-prescription of red tape pertaining to SMMEs (i.e. governmental policies and/or regulations and/or procedures).

From the above, it can be perceived that the profitability of South African SMME is influenced by, among others, sin tax, i.e. taxation levied on tobacco products, alcohol products and plastic bags. Hence, the main intent of this research study was to determine the effect which sin tax have on the profitability of South African convenience SMME stores.

Literature review

Overview of SMMEs in South Africa

In 1996 the National Small Business Act No. 102 was formally signed into Law (Kongolo 2010). This Act defines SMME as separate and legal business entities including its co-operatives, which are managed and/or owned by one or more owner(s), and operates within any sector or sub-sector of the economy (South Africa 1996). The main reasons as to why the SMMEs were formally introduced to the economy of South Africa were to create employment opportunities for both rural and urban growing labour force; ultimately providing a sense of relief in terms of poverty alleviation and being a catalyst for accelerating the achievement of socio-economic goals

Table 2. Unemployment statistics of South Africa from 2009 - 2013 (Indexmundi 2013)

Year	Estimated population size	Unemployment-rate (broad definition)
2009	49.0 million	24%
2010	49.3 million	25%
2011	49.9 million	25%
2012	50.5 million	24.9%
2013	52.9 million	25.1%

(Bruwer and Watkins, 2010; Mabasele 2009). The importance of South African SMMEs are further highlighted by Rootman and Kruger (2010) when expressing the view that these entities play an integral part of the national economy, as approximately 91% of all South African businesses in operation are regarded as SMMEs; all of which contribute up to 57% of the national GDP (Abor and Quartey 2010). South African SMMEs are further responsible for providing up to 61% of all national job opportunities (Kongolo 2010; Abor and Quartey 2010).

Albeit the above mentioned, data from Indexmundi (2013) reveal that between 2009 and 2013, unemployment rate actually worsened, leading to the perception that SMMEs were not attaining at least one of their main objectives as expected from them by the legislation. The relevant statistics pertaining to the latter are evident in Table 2. It is evident that although the population increased by 7.96% from 2009 to 2013, the unemployment rate remained above 24% for the same period. In essence, the analogy can be drawn that since the unemployment rate did not improve (i.e. decreased), while the estimated population size expanded; South African SMMEs were not effective (in terms of absorbing unemployed members of the workforce) or efficient (in terms of reducing unemployment in the shortest possible amount of time) in improving the unemployment situation in the country.

Although SMMEs are already responsible for absorbing over 50% of the national workforce, the unemployment rate is a clear indication that majority of South African SMMEs are either not as sustainable as they ought to be or are over-subscribed in terms of the number of employees employed. Van Eeden *et al.*, (2003) further holds that the objectives which South African SMMEs need to achieve in terms of formal legislation are not being met with great success as an estimated 80% of these entities are reported to fail within their first 3 years of existence. In more recent times, Fatoki (2012) reports that approximately 75% of South African SMMEs fail within their first 42 months of operation. As this dispensation is quite disconcerting, it is important to

investigate the main cause of failure.

Economic factors and SMMEs

As SMMEs conduct their business in the economy of the country, it is no surprise that prior research suggests that the blame for the dismal South African SMME sustainability can be hinged on economic factors. Economic factors are variables which directly influences all spheres of any economy and is usually divided into two categories, namely that of macro-economic factors and micro-economic factors (Mohr and Fourie 2004). These terms are briefly clarified below:

- **Macro-economic factors:** Macro-economic factors can be described as variables which stem from outside an organization and which are beyond the control of an enterprise leader such as legislative requirements, taxation, supply and demand of products, interest rates etc.
- **Micro-economic factors:** Micro-economic factors can be described as variables which stem from within an organisation which are controllable by an enterprise leader such as staff skills, staff morale, customer service etc.

In South Africa, prior research suggests that the following macro-economic factors have an adverse influence on SMME sustainability: limitations in terms of infrastructure, fluctuating exchange rates, fluctuating interest rates, increasing inflation rates, fluctuating market conditions, taxation, cost of electricity and water among others. In turn, popular micro-economic factors which also have been shown to have adverse influence on South African SMME sustainability are identified as: lack of financing, limited internal infrastructure, limitations to both access and implement technology, lack of skills (staff), lack of business skills (enterprise leaders) and location *et.c* (Rootman and Kruger 2010; Thomola, 2010; Olawale and Grawe 2010; Cant and Wiid 2013). From the above, one can infer that economic factors do in fact have a

major influence on the sustainability of South African SMMEs especially when taking cognizance of the different individually listed macro-economic factors and micro-economic factors. This in turn will have an impact on the enterprise' chances of becoming established.

Taxation as an influencing macro-economic factor

As previously mentioned, taxation is regarded as a macro-economic factor which has a definitive influence on South African SMME sustainability, its influence is not only limited to the latter. In essence, taxation also has a direct influence on South African SMMEs' profitability. For the sake of clarity, the terms "taxation" and "profitability" are defined below:

- **Taxation:** This is defined as a compulsory contribution to state (Government) revenue, levied by the Government on workers' income and business profits, or added to the cost of some goods, services and transactions (Oxford 2014a).
- **Profitability:** This is defined as the ability to generate financial gain especially when taking into account the difference between the amount earned (income) and the amount spent (expenses) in buying, operating or producing something (Oxford 2014b).

In a South African dispensation, taxation is a means whereby Government collects funds from both natural persons (e.g. human beings) and legal persons e.g. businesses (Huxham and Haupt 2010). Natural and legal persons are required by Law to pay tax to the South African Revenue Services (SARS) who in turn pay the National Revenue Fund. The National Revenue Fund in turn is tasked with the appropriation of funds to respective Provincial Revenue Funds for economic development through means of enhancing the economy's infrastructure as determined and required by the national Government.

Various types of taxation are implemented through different legislations in South Africa. These types of taxation include but not limited to Income Tax, Value Added Tax and Customs and Excise Levies (South Africa 2013). Income tax is a direct taxation which is paid to SARS and levied on South African residents (and certain non-residents) who earn an income from a source within South Africa (South Africa 1962). VAT and Customs and Excise Levies in turn are both examples of indirect types of taxation as they are collected on the principle of "duty at source".

This means that the applicable taxation is collected from a natural person and/or legal person by a supplier and afterwards paid to SARS. In particular, Customs and Excise Levies are imposed mostly on high volume day-to-day consumable products (e.g. petroleum, alcohol, tobacco etc.) and certain non-essential luxury products

(e.g. electronic equipment and cosmetics). Customs and Excise Levies were originally introduced to the South African economy via the Customs and Excise Act No. 91 of 1964 with the primary basis for these levies being to provide Government with an easily collectible and constant stream of revenue placed on products that are fast moving, high-volume and non-essential (South Africa 2013). As a result of the latter, Customs and Excise Levies are commonly referred to as SIN tax in South Africa.

From the aforementioned, the national Government has a direct influence on consumer behaviour of residents (on the previously listed products) by adjusting SIN tax on an annual basis via the annual budget speech, all with the moral intent to discourage the consumption of products that are harmful to human health (e.g. alcohol and tobacco products etc.) and/or harmful to the environment (e.g. plastic bags, carbon dioxide etc.). From the foregoing, the South African Government realized the importance of SMMEs and as a result, introduced tax relief initiatives to encourage the overall development of these entities (Ramusetheli 2011).

Although this incentive was made with good intentions, many SMMEs do not in fact, qualify for special tax allowances and incentives, and/or are not aware of these special tax allowances and incentives – thereby ultimately adversely influencing both their sustainability and profitability of South African SMMEs.

Research design and methodology

According to Collis and Hussey (2009) a research study can be classified in terms of its purpose, process, logic and outcome.

- **Purpose:** This research was regarded as exploratory as it covers a phenomena on which little or no prior research were conducted especially areas on which limited literature exists. The research problem identified held relevancy to the perception that SIN tax has a definitive adverse influence on SMME profitability. Fundamentally, there was limited theoretical information available to validate the latter gap; thus exploratory research was deemed fit for this research study.
- **Process:** This research fell within the positivistic research paradigm. The process was deemed quantitative as the data collected was numerical in nature. Collected data were also analyzed by means of descriptive statistics.
- **Logic:** An inductive approach was followed for this study as the perceptions of the researchers stemmed from the observations of a practical reality, whereby evidence were gathered regarding the possible influence of SIN tax (as imposed on tobacco products and plastics bags) on the profitability of SMMEs. As a result, a theory was formulated.
- **Outcome:** This study was deemed as basic research

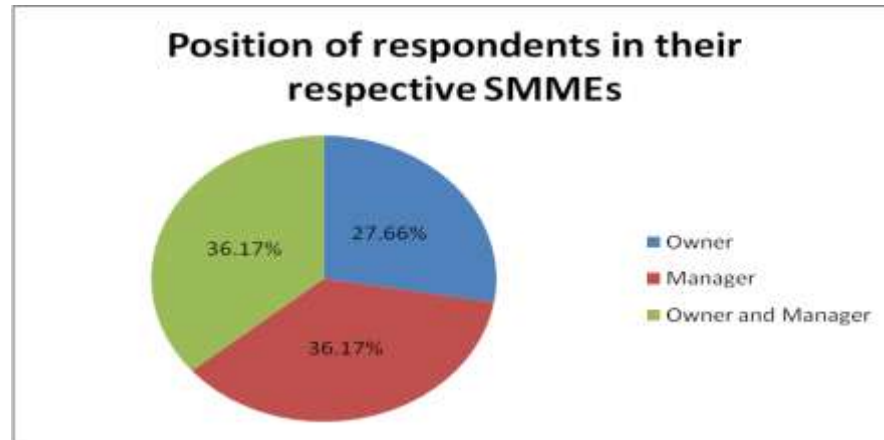


Figure 1. Position of respondents in their respective SMMEs

and was aimed at improving the holistic understanding of general issues surrounding the research in question. The purpose of the study was particularly focused on providing a better understanding as to how the profitability of SMMEs is influenced by SIN tax.

This study was further regarded as survey research whereby questionnaires were distributed to SMME leaders (i.e. owners and/or managers) of Convenience SMME Stores in the Southern Suburbs of the Cape Metropole. A total of 47 responses were obtained based solely on non-probability sampling techniques, specifically that of purposive sampling. This sampling frame was decided upon as there was no information available as to the actual size of the population and the main intention of the researchers was to obtain rich data for further analyses.

Moreover, all respondents had to adhere to a strict set of delineation criteria before their respective responses were regarded as valid. Lastly, applicable ethical considerations were accounted for during this research. Essentially, all respondents were aware of the nature of the study and were informed that they could withdraw from the study at any time if they should so wish. All information provided by respondents was also kept strictly confidential and respondents were assured that their responses would only be used for research purposes.

Delineation

All respondents had to adhere to the following delineation criteria before their responses were regarded as valid:

- ~ Respondent should have been owners and/or managers of a SMME(s).
- ~ The SMME should have been regarded as either a convenient store.
- ~ The SMME should have employed between 1 and 20

employees.

- ~ The SMME should have adhered to the formal definition of a SMME as per the Small Business Act No. 102 of 1996.
- ~ The SMME should have been regarded as a non-franchised entity.
- ~ The SMMEs should have operated in the Southern Suburbs of the Cape Metropole, specifically in Grassy Park, Wynberg and Gatesville.

Research findings and discussions

A total of 53 questionnaires were both distributed to respondents and collected from respondents. Of all completed questionnaires received, only 47 were regarded as be valid. The relevant findings which were made are discussed as follows.

General overview of respondents

Respondents were asked a range of general questions in terms of the position(s) they fulfill in their respective SMMEs, the number of employees employed and the number of days that respondents allowed their businesses to trade per week. The intent of these questions was to glean necessary data in order to depict the average respondent targeted by this research study, mainly through means of descriptive statistics. In terms of respondents' respective role(s) in their SMMEs: most respondents were regarded as either managers (36.17%) or owner and manager (36.17%), whilst the remaining 27.66% of respondents were regarded as owners only (Figure 1). Moreover, of the 47 SMMEs that were approached, it is evident that 80.85% were regarded as micro enterprises, 14.89% were regarded as very small enterprises and 4.26% were regarded as small enterprises. The latter categorisation of enterprises in terms of their respective sizes was based on the criteria of the number of full-time employees employed following

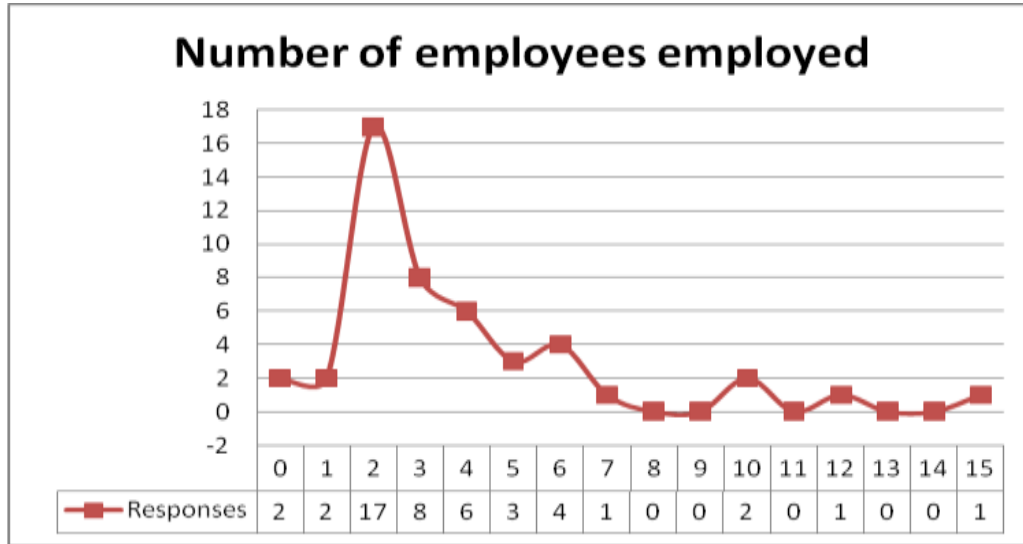


Figure 2. Number of employees employed by respondents

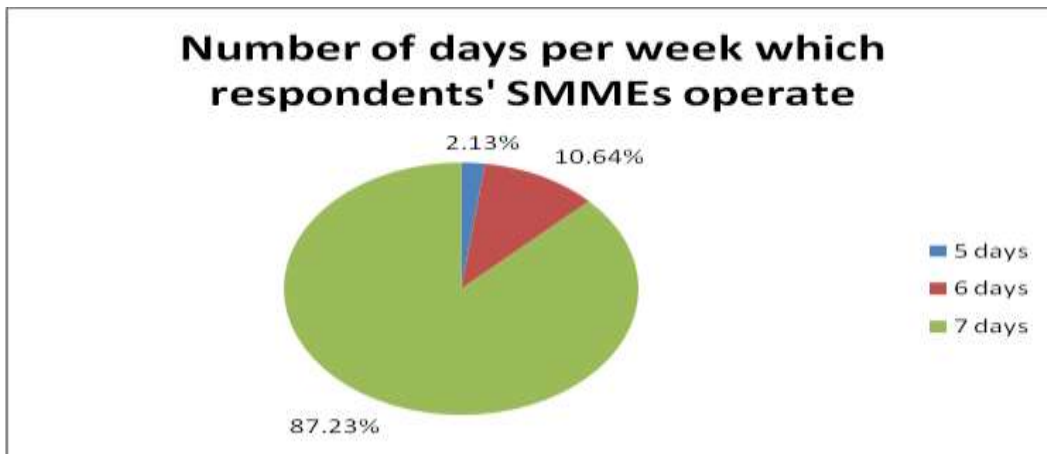


Figure 3. Number of days per week that respondents' SMMEs operate in per week

the Small Business Act No. 102 of 1996 (Figure 2). The rounded average number of persons employed amounted to 4 (actual average was 3.76)

Furthermore, 87.23% of respondents indicated that their SMMEs operated 7 days a week, while only 10.64% and 2.13% indicated that their SMMEs operated 6 days a week and 5 days a week respectively (Figure 3) Hence, from a general point of view, it is evident that respondents were owners and/or managers of micro enterprises, very small enterprises and small enterprises; employing on the average, 3 employees to assist in day to day business operations. These entities further conduct business on the average for 6 days per week and are all regarded as non-franchised entities, operating in the fast moving consumer goods industry (particularly convenience SMME stores), within the Cape Metropole in Grassy Park (47% of respondents), Wynberg (31% of respondents) and Gatesville (22% of respondents).

Respondents' profitability

Respondents were asked to rate how well their overall profitability was. For ethical reasons, three questions were posed and these had to be answered by means of a 5 point Likert Scale (1 = very bad, 2 = bad, 3 = average, 4 = good, 5 = very good). The questions were as follows: "How would you rate your business' gross profit?", "How would you rate your business' net profit?" and "How would you rate your business' return of investment?" The relevant responses for each question are elaborated as follows:

(i) How would you rate your business' gross profit?

The responses received for this are shown in Figure 4. The calculated mean for responses received amounted to 2.94 ($\sigma = 0.76$). This can be translated that on the

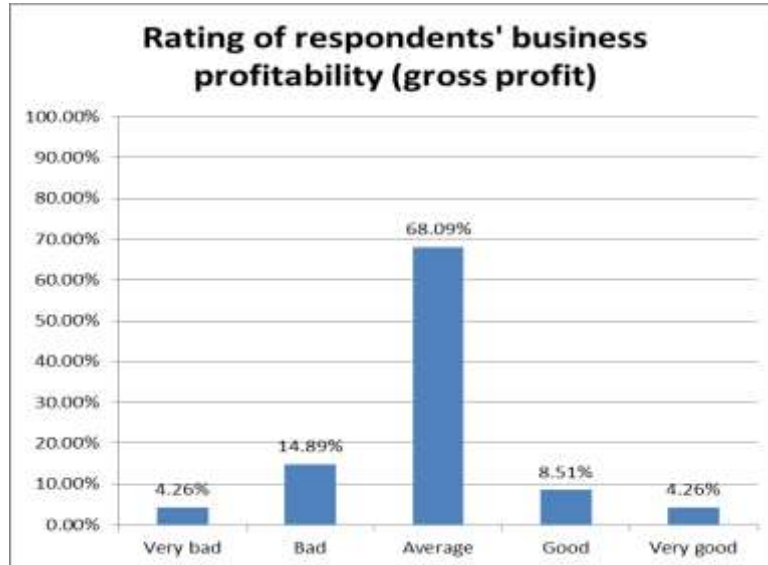


Figure 4. The rating of respondents' business' profitability (gross profit)

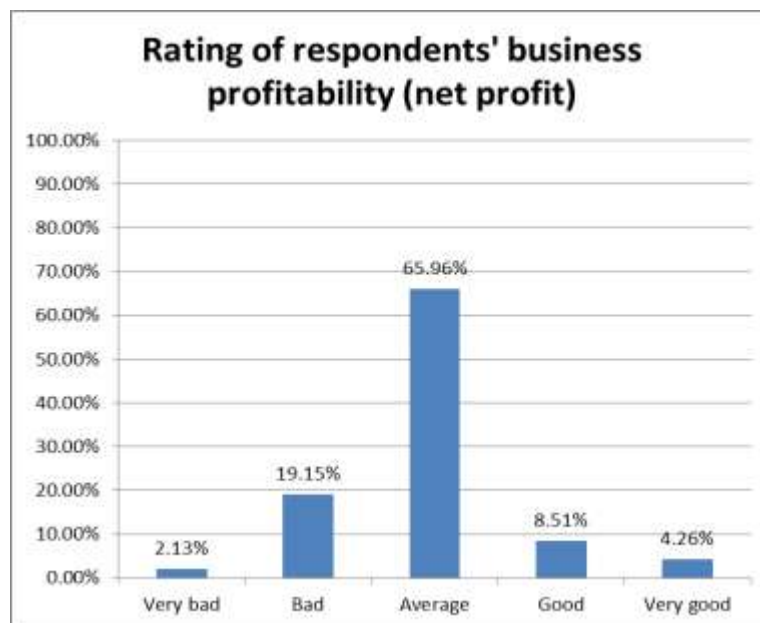


Figure 5. The rating of respondents' business' profitability (net profit)

average, respondents rated their gross profit (i.e. sales minus cost of sales) at 2.94 out of a possible maximum of 5; that is 58.8%. Though the calculated mean is greater than 50%, it also gives rise to the perception of the harsh economic environment in which these entities have to operate.

(ii) How would you rate your business' net profit?

The responses received for this are shown in Figure 5. The calculated mean for responses received also amounted to 2.94 ($\sigma = 0.73$). This can be translated that on the average, respondents rated their net profit (i.e.

gross profit plus operating income minus operating expenses) at 2.94 out of a possible maximum of 5; i.e. 58.8%. Though the calculated mean is greater than 50%, it also supports the harsh economic environment view.

(iii) How would you rate your business' return of investment?

The responses received for this are shown in Figure 6. The calculated mean for responses received amounted to 2.79 ($\sigma = 0.81$). This can be translated that on the average, respondents rated their return on investment

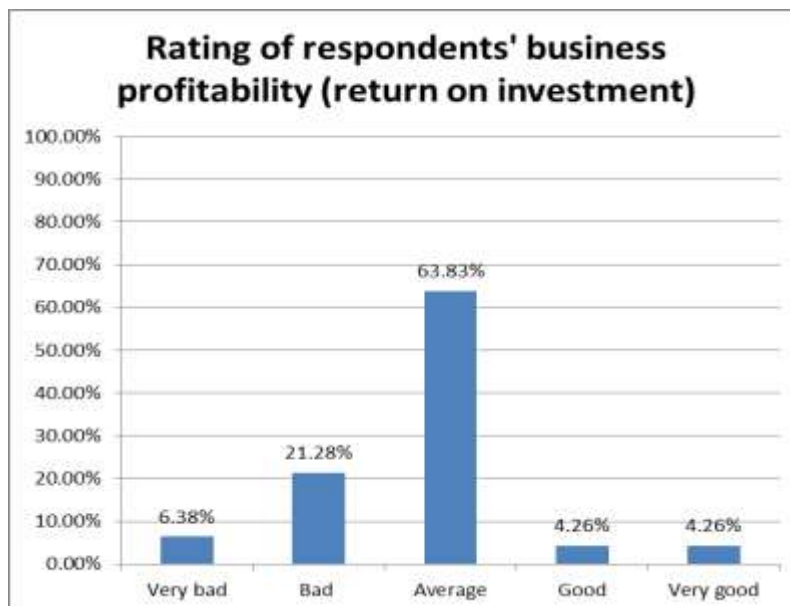


Figure 6. The rating of respondents' business' profitability (return on investment)

(i.e. net profit divided by capital) at 2.79 out of a possible maximum of 5; i.e. 55.8%. The above statistics shows that SMME leaders were slightly more satisfied (5.8% to be exact) than not with their overall return made on their investments. Again, this reiterates the fact that times are tough for most South African businesses.

From the above, it is clear that the profitability of respondents were rated as slightly above average. Although the economic landscape of South Africa has much to do with this phenomenon, it should also be kept in mind that competition among SMMEs are very fierce. In order for SMMEs to remain established, these entities should not out-price themselves out of their current market.

Awareness of sin tax

Respondents were asked to indicate how aware they were of SIN tax in a broad sense. This was done by making use of a 4 point Likert scale: (1 = non awareness, 2 = little awareness, 3 = some awareness, 4 = much awareness). Of all the responses received 38.3% of respondents were not aware of SIN tax while 25.53% of respondents had little awareness. Furthermore, 23.4% of respondents indicated that they had some awareness of the SIN tax while only 12.77% of respondents indicated that they were considerably aware of the term SIN tax. In all, the latter statistics culminate to the fact that only 36.17% of respondents had an above-average awareness of SIN tax. This finding is quite disconcerting as all respondents should have been aware of SIN tax.

The South African Government has put in place tax incentives for SMMEs (especially in terms of SIN tax),

which ultimately aid in attaining a better profitability-rating. On one hand, all respondents should have had more than just an average awareness of SIN tax as this knowledge can only be to the benefit of their respective SMMEs' profitability. On the other hand, the fact that so little respondents were properly aware of SIN tax can also allude to the perception that SMME leaders are not properly informed by the national Government of tools which can aid in their overall profitability. With SIN tax being charged on plastic bags and tobacco-related products (among many other goods and services), respondents were asked to tell what they know in terms of how the latter influenced their respective business' overall profitability.

The effect of sin tax on plastic bags on profitability

Respondents were asked how much they were aware of the fact that SIN tax was charged on plastic bags as an array of plastic bags is sold by SMMEs especially in South Africa. The awareness was again determined through means of a 4 point Likert scale (1 = non awareness, 2 = little awareness, 3 = some awareness, 4 = much awareness). The answers received are shown in Figure 7. The calculated mean for responses received amounted to 1.97 ($\sigma = 0.96$). This can be translated that on the average, respondents had an awareness of 1.97 out of a possible maximum of 4; i.e. 45.75%, that SIN tax was charged on plastic bags. This statistic gives rise to the perception that for most respondents, the fact that SIN tax is charged on plastic bags was quite a surprise.

Moreover, respondents were asked how many plastic bags they sold during the course of one full business day.

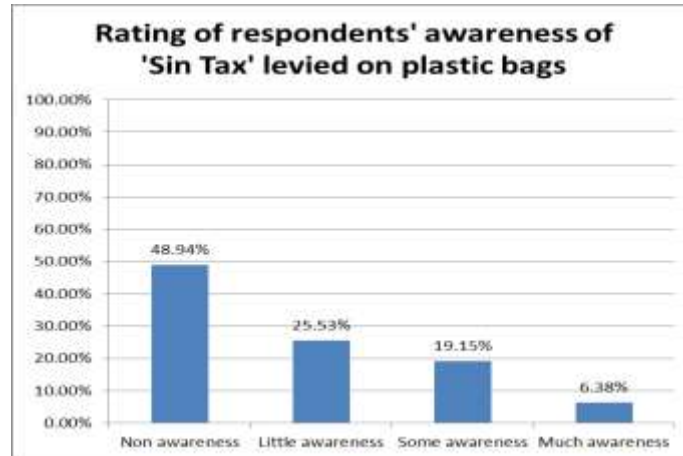


Figure 7. The rating of respondents' awareness of 'Sin Tax' levied on plastic bags

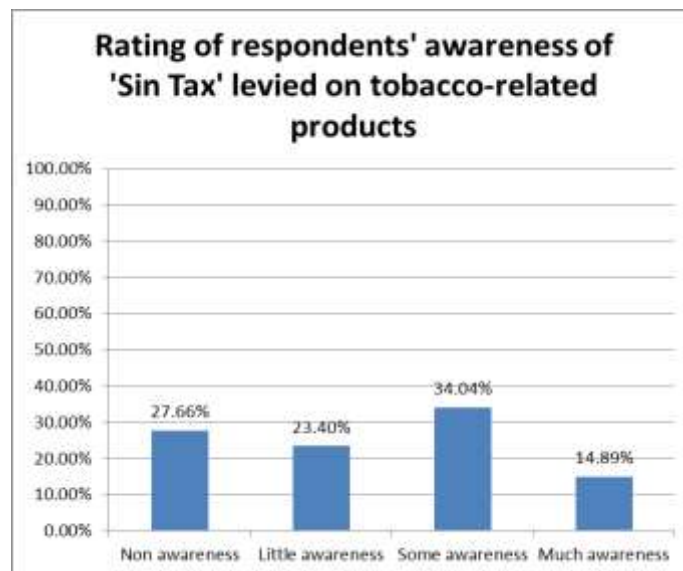


Figure 8. The rating of respondents' awareness of 'Sin Tax' levied on tobacco-related products

From the responses received, a total of 76.59% of them indicated that they sold between an estimated of 0 - 50 plastic bags per day, while 23.41% indicated that they sold 50 plastic bags or more on a daily basis. In conjunction with the latter, respondents were also asked how large the revenue earned on plastic bags was in relation with their overall revenue made (in a percentage format). From the statistics provided, the calculated mean was established at 2.14%.

In essence, the 2.14% mean is an indication that on average, the revenue earned on the sale of plastic bags (only) contributes about 2.14% of the total revenue earned by SMMEs. From the above, it is clear that SIN tax as levied on plastic bags does indeed have an influence on SMMEs' profitability. Ultimately, the effect of SIN tax levied on plastic bags will have an immaterial

effect on these entities' profitability.

The effect of sin tax on tobacco-related products on profitability

As in the case of plastic bags, respondents were asked of their awareness of the fact that SIN tax was charged on tobacco-related products. The awareness was again determined by means of a 4 point Likert scale (1 = non awareness, 2 = little awareness, 3 = some awareness, 4 = much awareness). The answers receive are shown in Figure 8. The calculated mean for responses received amounted to 2.36 ($\sigma = 1.05$). This can be translated that on the average, respondents had an awareness of

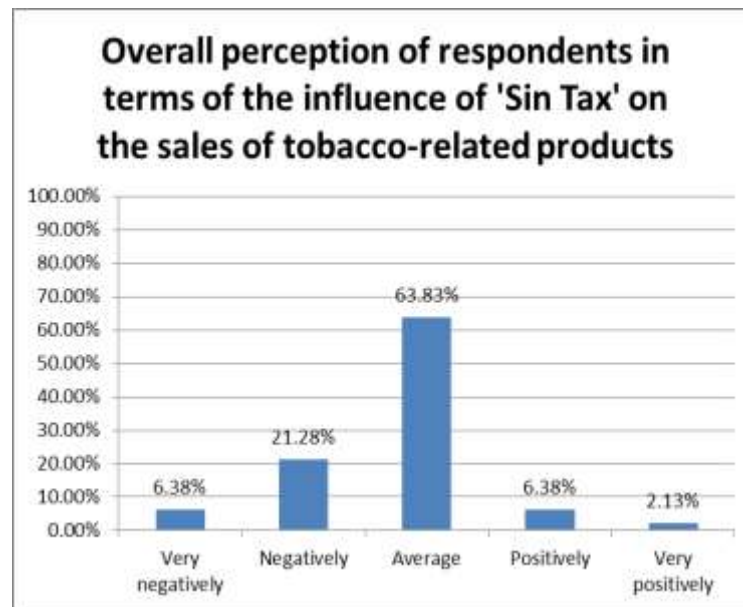


Figure 9. The overall perception of respondents in terms of the influence of sin tax, levied on tobacco-related products

Table 3. Frequency distribution of the overall perception of respondents in terms of the influence of sin tax levied on tobacco-related products on the sale of tobacco-related products

Variable	N	Mean	Std Dev	Min	Max
Sales made on tobacco-related products decreased from 2012 to 2013	47	2.74	1.07	1.00	5.00
Profit earned from tobacco-related products decreased from 2012 to 2013	47	2.72	1.08	1.00	5.00

2.36 out of a possible maximum of 4; i.e. 59%, that SIN tax was charged on tobacco-related products. This statistic gives rise to the perception that for most respondents, the fact that SIN tax is charged on plastic bags was a normal phenomenon. Moreover, respondents were asked to describe their perceptions in terms of how SIN tax as levied on tobacco products influenced their overall sales (quantity) of tobacco-related products. This was done through means of using a 5 point Likert scale (1 = very negatively, 2 = negatively, 3 = average, 4 = positively, 5 = very positively). Figure 9 contains the findings. The calculated mean for responses received amounted to 2.77 ($\sigma = 0.76$). This can be translated that on the average, respondents had an average view that SIN tax as levied on tobacco-related products, have a slight negative influence on the sale of tobacco-related products in a holistic sense.

In order to validate the latter response, respondents were also asked (in the form of two statements) whether the actual sales of tobacco-related products decreased between the years 2012 - 2013, and whether profit decreased within the same period. Statements made had to be answered by using a 5 point Likert scale (1 =

strongly agree, 2 = agree, 3 = neither agree or disagree, 4 = disagree, 5 = strongly disagree). A summary of the findings are provided in Table 3.

From the foregoing, it appears more often than not, SIN tax levied on tobacco-related products had a negative influence on profit earned on tobacco-related products (mean of 2.74 out of 5; and also a negative influence on the profit earned on tobacco-related products (mean of 2.72 out of 5).

Respondents were asked how many units of tobacco-related products they sold on a daily basis. From received responses, 76.59% of respondents indicated that they sold between an estimated 0 - 50 units per day, while 23.41% of respondents indicated that they sold 50 units or more per day. In relation with the latter, respondents were also asked how large the revenue earned on units of tobacco-related products was in relation with overall revenue made. From the statistics provided, the calculated mean was 15.77%. In essence, the 15.77% mean is an indication that on average, the revenue earned on the sale of tobacco-related products (only) contributes about 15.77% of the total revenue earned by SMMEs. From the above, it is clear that SIN

tax as levied on tobacco-related products does indeed have an influence on SMMEs' profitability. The effect of SIN tax levied on tobacco-related products will have a material effect on profitability.

Managerial implications

Unfortunately SIN tax will not be abolished by the national Government in the nearby or distant future. As such, since SIN tax does have a distinct influence on the profitability of SMMEs, two very pragmatic implications are that (1) SMMEs should increase the sales price of plastic bags and tobacco-related products (markup) and/or (2) SMMEs should decrease the cost price of plastic bags and tobacco-related products. If the first implication is followed, it may result in a sudden increase of revenue but only for a limited time, as such SMMEs will 'out price' themselves out of the market. The second implication is much more feasible as SMMEs stand a better chance of negotiating better terms with their respective suppliers if they purchase them in bulk. The upside is that tobacco-related products and plastic bags have a lengthy life-span; hence there are little risks involved in stocking up on such products. In all, SMMEs stand a better chance to mitigate the influence of SIN tax levied on their products sold if they can reduce the cost price of these products.

CONCLUSION

From the above analysis it is evident that a majority of SMME leaders had a limited awareness of SIN tax in a broad sense. Also, SMME leaders indicated that their respective SMMEs had minute above-average profitability in terms of their gross profit, net profit and return on investment. This phenomenon is greatly spurred by the fluctuating economic landscape of South Africa and also, the fierce competition between these SMMEs; all in an attempt to make ends meet. Having known that SIN tax had an influence on this particular profitability of SMMEs, further investigation was conducted to determine the effect of SIN tax on SMME profitability.

It was found that on the average, the revenue generated from the sale of plastic bags was low (2.14%) while the revenue that is generally generated from the sale of tobacco-related products was medium (15.77%). From the data analyzed it was also found that SIN tax as levied on these latter products, did most definitely influence the profit made on the sale of plastic bags and tobacco-related products. However, the negative effect of SIN tax on the profit made on plastic bags was much less than the negative effect of SIN tax on the sale of tobacco-related products. Regardless of this, SMMEs will always be exposed to the phenomenon of SIN tax. The best way

to be safeguarded against the adverse influence of SIN tax on the profitability of these entities will be to reduce the cost price of the products on which SIN tax are levied to an absolute minimum.

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