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TAXATION

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TAXATION

What is a tax?

- **Taxation** is *compulsory* payments by the citizens or residents of a country to the government. It is a charge against a citizen's person or property or activity for the support of government.
- **Income tax** is the main source of government income.

Why should it be paid?

- It is a means by which government *finance their expenditure* by *imposing charges* on citizens and corporate entities. Government uses the tax that we pay for things like education, housing, roads and health care. The government uses the funds to run the country efficiently and to protect those who live in the country. Government use *taxation* to encourage or discourage certain *economic decisions*. For example, reduction in taxable personal (or household) income by the amount paid as interest on home mortgage loans results in greater *construction activity*, and generate *more jobs*.

Who decides the tax rates?

- The minister of Finance sets the tax rates each year and announces the rates during the annual budget speech in February.
- **Taxation in South Africa** may involve payments to a minimum of two different levels of government: **central government** through the South African Revenue Service (SARS) or to **local government**.
- Central government revenues come primarily from *income tax*; *value added tax (VAT)*, *corporation tax* and *fuel duty*.
- Local government revenues come primarily from *grants* from central government funds and *municipal rates*.

Who pays tax?

- Individuals – from their salaries, commissions, fees, dividends etc.

We pay tax to SARS (South African Revenue Service) on the money that we earn every month. SARS is a branch of the Government that collects taxes on behalf of the Government. If people do not pay the tax they owe, they will be charged penalties.

- Corporations/Companies

Companies also pay tax to SARS ((South African Revenue Service) on the profit that they earn every year (annual).

- Everyone in the country via indirect taxes (petrol, VAT)

When you buy food at the supermarket you pay VAT (Value Added Tax) on the food. If you fill petrol, a certain portion of the money that you pay for the petrol goes to the government in tax to maintain the roads.

Individual tax

- Residents of SA- world-wide income
- Non-residents – taxed on their income from SA
- Tax is paid from taxable income – gross income less exception and other allowable deductions.

Types of tax

- Value Added Tax – (VAT) – levied on the supply of all goods and services rendered by registered vendors.
- Personal Income Tax(PAYE) – deducted from an employee's income and paid direct to SARS
- Transfer Duty - % of money paid when a property is transferred between two parties.
- Fuel Levy
- Environmental Levy – e.g. tax imposed on certain types of plastic bags.
- Skills development levy (SDL)

Value Added Tax (VAT)

- Indirect tax on consumption of goods and services
- Collected by registered businesses, which becomes vendors and act as agents for government.
- VAT currently levied at a standard rate of **15%**
- VAT is charged at each stage of production and distribution.

Activity 1: VAT (Value Added Tax)

1.1: VAT *exclusive*

Benny receives calculators to sell in her stationary shop. The calculators' price without VAT is R188, 59. Calculate how much the calculator will cost with VAT added

1.2: VAT *Inclusive*

A bunch of flowers cost R130, 00 including VAT. What is the price of the flowers without VAT?

Personal Income Tax

- **Income tax** is the money you pay to government from your wages to pay for roads, schools, hospitals etc.
- The amount of tax that you pay depends on:
 - How much you earn
 - Your age
 - Whether you are member of pension fund or contributing towards a retirement annuity.
- Examples of income for which you can be taxed: income from employment i.e. salaries, bonuses, overtime; fringe benefits; income from your/ business, investment income etc.
- Once a year, your employer must give you an IRP5 tax certificate that shows the total amount of tax that was deducted

CALCULATION OF PAYE

Important Terms

- **Tax rebate** is an amount which is deductible from the tax payable by a tax payer. Examples are the primary rebates which apply to all tax payers, and the additional rebates which are granted to people above a certain age. Rebates are given to reduce the tax burden on people and give them more to spend.
- **Tax threshold** is a specified income level decided on by the department of finance from time to time. If your income is higher than the tax threshold you pay tax. If you earn less than the tax threshold you don't have to pay tax.
- **Tax refund** is given to someone who has, over a year, paid more tax than he/she should have
- **Pay- As – You - Earn** is the system which ensures that an employees' income tax is paid on a monthly basis, rather than having to be paid in one sum at the end of the year.

- **Gross income** is the amount of money earned before any deductions.
- **Deductions** are the money to be subtracted from your gross salary before it is deposited.
- **Net Salary** is the remaining amount after all deductions are made.
- **Tax deductible expenses** those which are excluded from tax and are subtracted before tax calculation e.g. retirement annuities, UIF & pension fund.
- **Non-taxable deduction**
 - Pension schemes – up to 7,5%
 - Medical aid – only credits can be deducted.
- **Taxable deduction** – deductions done on salary after calculation of tax e.g. bond, car payment

STEPS TO FOLLOW WHEN CALCULATING TAX

When calculating tax one can design some guiding steps to follow as below:

Step 1: Convert to annual salary if monthly salary is given

12 (monthly salary), if there are no tax deductible expenses)

Step 2: Deduct tax deductible expenses

12 [monthly salary – tax deductible expenses (retirement annuities, UIF & pension fund)]

Step 3: Determine the correct tax bracket and calculate.

Step 4: Deduct rebate (primary/ secondary / tertiary given)

Step 5: Deduct tax medical credits (tax medical credits rates provided)

Step 6: Determine the monthly tax value if necessary (divide by 12)

Activity 2

Thabo received his employee tax certificate (IRP5) for the financial year ending 28 February 2019. Some of the information has been omitted.

EMPLOYEE CERTIFICATE					
Transaction year: 2019		Year of Assessment: 2019		Period of reconciliation: 2018/2019	
TYPE OF CERTIFICATE: IRP5					
EMPLOYEE INFORMATION					
Surname: Senong			Date of birth: 19750616		
First name: Thabo			Income tax number: 0804858209		
EMPLOYER INFORMATION					
Trading or other name: Department of Education					
INCOME RECEIVED		INCOME RECEIVED CONTINUED ...		TAX CREDITS, CONTRIBUTIONS	
AMOUNT	SOURCE CODE	AMOUNT	SOURCE CODE	AMOUNT	SOURCE CODE
R 185 463	3601	GROSS RETIREMENT FUNDING INCOME		PAY-AS-YOU-EARN	
R 15 521	3605	R 185 463	3697	R 30 075,79	4102
R 26 188	3713	GROSS NON- RETIREMENT FUNDING INCOME		TOTAL TAX AND UIF	
R 8 640	3810	R 50 349	3697	R 30 075,79	4149
				MEDICAL SCHEME CONTRIBUTIONS TAX CREDIT	
		DEDUCTIONS/CONTRIBUTIONS		R 2 760,00	4116
		R 13 909	4001		
		R 20 013	4005		
		R 8 640	4474		
		TOTAL DEDUCTIONS /CONTRIBUTIONS			
		R A....	4497		
SOME SOURCE CODES					
3601	INCOME – TAXABLE	3713	OTHER ALLOWANCES – TAXABLE	4005	MEDICAL AID CONTRIBUTIONS
	ANNUAL		MEDICAL AID CONTRIBUTIONS PAID		EMPLOYER'S MEDICAL

Use Thabo's **EMPLOYEE CERTIFICATE (IRP 5)** to answer the following questions.

- 2.1 Briefly explain the difference between an *employee* and an *employer*. (2)
- 2.2 What does the abbreviation *UIF* stand for? (2)
- 2.3 Write down the taxable amount that Thabo received as an annual payment. (2)
- 2.4 Did Thabo receive a non-taxable reimburse travel allowance? Give a valid reason for your answer. (2)
- 2.5 Calculate the average monthly medical scheme fees tax credit. (2)
- 2.6 Calculate the missing amount **A**. (2)
- 2.7 Indicate how the gross non-retirement funding income was calculated. (2)
- 2.8 From 1 March 2018 to 31 July 2018 Thabo contributed a total of R4 975, 25 to his pension fund.
Determine the average monthly contribution for the remainder of the financial year. (5)

Activity 3

Below is the 2012/2013 Tax table and the medical credit table which were used when solving the learning activities on PAYE

2013 Income Tax Table (1 March 2012 - 28 February 2013)

Taxable Income	Tax Rate
R 0 - R 160 000	18%
R 160 001 - R 250 000	R 28 800 + (25% of amount above R 160 000)
R 250 001 - R 346 000	R 51 300 + (30% of amount above R 250 000)
R 346 001 - R 484 000	R 80 100 + (35% of amount above R 346 000)
R 484 001 - R 617 000	R 128 400 + (38% of amount above R 484 000)
R 617 001 and above	R 178 940 + (40% of amount above R 617 000)
Rebates	
Primary Rebate	R 11 440
Secondary Rebate (Persons 65 and older)	R 6 390
Tertiary Rebate (Persons 75 and older)	R 2 130

Medical Tax Credit Rates from 2013 tax year onwards

Per month (R)	2016	2015	2014	2013
For the taxpayer who pay the medical scheme contributions	270	257	242	230
For the first dependant	270	257	242	230
For each additional dependant(s)	181	172	162	154

3.1. Jabulane, a 25 year old earns a monthly salary of R25 000, 00 before deductions.

Calculate his monthly tax.

3.2. Mrs Ngubane is 42 years old and earns R21 000 a month. She contributes R1575 towards pension fund, R3 000 for medical aids for herself, her husband and two children a month and 1% for UIF. What is her net salary?

Activity 4

Mr. Khosa is a senior engineer at Tzaneen Engineering Company. He earns an **annual pensionable salary of R374 670, 00** and a **non-pensionable bonus of R80 000-00 per annum**. He is **married with three children** who are all members of his medical aid.

He contributes **7, 5%** for pension fund and **R1 100 per month** towards retirement annuity. **No pension contribution is deducted from the annual bonus**

Use the tables shown below to answer the questions that follows:

Taxpayer + dependants	Medical tax credit (1 March 2013 until 28 February 2014)	
	per month	per annum
Taxpayer (1)	R 242.00	R 2,904.00
Taxpayer + 1 dependant	R 484.00	R 5,808.00
Taxpayer + 2 dependants	R 646.00	R 7,752.00
Taxpayer + 3 dependants	R 808.00	R 9,696.00
Taxpayer + 4 dependants	R 970.00	R 11,640.00

Note: The tables are for illustration purposes only, and the amounts may vary depending on the number of months in the year of assessment during which a taxpayer and dependents are members of a medical scheme fund.

INCOME TAX: INDIVIDUALS AND TRUSTS

Tax rates (year of assessment ending 28 February 2014)

Individuals and special trusts

Taxable Income (R)	Rate of Tax (R)
0 – 165 600	18% of taxable income
165 601 – 258 750	29 808 + 25% of taxable income above 165 600
258 751 – 358 110	53 096 + 30% of taxable income above 258 750
358 111 – 500 940	82 904 + 35% of taxable income above 358 110
500 941 – 638 600	132 894 + 38% of taxable income above 500 940
638 601 and above	185 205 + 40% of taxable income above 638 600

Tax Rebates

Rebates

Primary	R12 080
Secondary (Persons 65 and older)	R6 750
Tertiary (Persons 75 and older)	R2 250

- 4.1 Calculate Mr. Khosa's annual gross income.
- 4.2 Determine Mr. Khosa's annual contributions towards pension funds
- 4.3 Calculate Mr. Khosa's annual taxable income
- 4.4 Determine Mr. Khosa's **monthly tax liability** (monthly tax payable) to SARS.

Activity 5

Sello was appointed as manager at Tzaneen Municipality earning a basic salary of **R33 500 per month**. In addition he receives a **bonus equal to his monthly basic salary** and a travel allowance of **R2000 per month**. He contributes **7,5% of his salary to a pension fund**. He is **married with one child** and he belongs to the medical scheme. The taxable amount of the vehicle usage is **20% of the allowance**.

Table: Tax table for (1 March 2015 – 29 February 2016)

Taxable Income(R)	Tax Rate(s)
R 0 - R 181 900	18% of each R1
R 181 901 - R 284 100	R 32 742 + (26% of amount above R 181 900)
R 284 101 - R 393 200	R 59 314 + (31% of amount above R 284 100)
R 393 201 - R 550 100	R 93 135 + (36% of amount above R 393 200)
R 550 101 - R 701 300	R 149 619 + (39% of amount above R 550 100)
R 701 301 and above	R 208 587 + (41% of amount above R 701 300)

Rebates

Primary Rebate	R 13 257
Secondary Rebate (Persons 65 and older)	R 7 407
Tertiary Rebate (Persons 75 and older)	R 2 466

Medical Tax Credit Rates for taxpayer below 65 (per month)

For tax payer	R270
For 1 st dependent	R230
For each additional dependent	R181

5.1 Calculate Sello's annual pension contribution

5.2 Calculate the annual taxable amount of his travel allowance

5.3 Calculate his annual tax payable if his annual taxable income is R491 850,00

5.4 Calculate his annual net income

Net income = Gross income – Income Tax – Pension – Medical scheme tax credit

Activity 6

Use the tables shown for 2013/2014 below to answer the question that follows:

Taxpayer + dependants	Medical tax credit (1 March 2013 until 28 February 2014)	
	per month	per annum
Taxpayer (1)	R 242.00	R 2,904.00
Taxpayer + 1 dependant	R 484.00	R 5,808.00
Taxpayer + 2 dependants	R 646.00	R 7,752.00
Taxpayer + 3 dependants	R 808.00	R 9,696.00
Taxpayer + 4 dependants	R 970.00	R 11,640.00

Note: The tables are for illustration purposes only, and the amounts may vary depending on the number of months in the year of assessment during which a taxpayer and dependants are members of a medical scheme fund.

INCOME TAX: INDIVIDUALS AND TRUSTS

Tax rates (year of assessment ending 28 February 2014)

Individuals and special trusts

Taxable Income (R)	Rate of Tax (R)
0 – 165 600	18% of taxable income
165 601 – 258 750	29 808 + 25% of taxable income above 165 600
258 751 – 358 110	53 096 + 30% of taxable income above 258 750
358 111 – 500 940	82 904 + 35% of taxable income above 358 110
500 941 – 638 600	132 894 + 38% of taxable income above 500 940
638 601 and above	185 205 + 40% of taxable income above 638 600

Tax Rebates

Rebates

Primary	R12 080
Secondary (Persons 65 and older)	R6 750
Tertiary (Persons 75 and older)	R2 250

Calculate the annual taxable income for Mr. Naidoo if his annual tax payable R107 520, 59 (assuming he does not have medical scheme and dependants)

ACTIVITY 7

Solly, a 28 year old was appointed as manager at local super-marked earning a basic salary of R33 500 per month. In addition he receives a 13th cheque equal to his monthly salary. He contributes R1 800 towards retirement annuity funds, R2 000 towards medical scheme and 7,5% of his salary to a pension fund. He is married with two children and he belongs to the medical scheme.

The table 3 below shows the income tax brackets for the 2016/2017 financial year.

Income Tax Brackets 2016/2017		
Tax brackets	Taxable Income (R)	Rates of Tax (R)
1	0 – 188 000	18% of each rand
2	188 001 – 293 600	33 840 + 26% of the amount above 188 000
3	293 601 – 406 400	61 296 + 31% of the amount above 293 600
4	406 401 – 550 100	96 264 + 36% of the amount above 406 400
5	550 101 – 701 300	147 996 + 39% of the amount above 550 100
6	701 301 and above	206 964 + 41% of the amount above 701 300
Tax Rebates		
Rebates		R
Primary (less than 65yrs)		13 500
Secondary (65yrs and older)		7407
Tertiary (75yrs and older)		2 466
Medical Tax Credit Rates for taxpayer below 65 (per month)		
For tax payer		R270
For 1 st dependent		R230

- 7.1 Calculate Solly's gross annual salary (2)
- 7.2 Calculate Solly's annual pension contribution (3)
- 7.3 Use the tax table for 2016/2017 above to calculate Solly's monthly income tax contribution (10)
- 7.4 Calculate Solly's annual net income (3)

Net income = Gross – (tax + retirement + medical + pension) contributions

Activity 8 (Practice Exercises)

The table 3 below shows the income tax brackets for the 2019/2020 financial year

Income Tax Brackets 2019/2020	
Taxable income (R)	Rates of tax (R)
0 – 195 850	18% of taxable income
195 851 – 305 850	35 253 + 26% of taxable income above 195 850
305 851 – 423 300	68 853 + 31% of taxable income above 305 850
423 301 – 555 600	100 263 + 36% of taxable income above 423 300
555 601 – 708 310	147 891 + 39% of taxable income above 555 600
708 311 – 1 500 000	207 448 + 41% of taxable income above 708 310
1 500 001 and above	532 041 + 45% of taxable income above 1 500 000
Rebates	
Rebates	R
Primary (less than 65)	14 220
Secondary (65 and older of age)	7 794
Tertiary (75 and older of age)	2 601
Medical Tax Credit Rates for taxpayer below 65 (per month)	
Main member of a medical aid	310
First dependant	310
Every additional dependant	209

8.1 Mr Mokoena is a 45-year-old male who receives a basic monthly salary of R20 416, 67 and an annual bonus equal to his basic monthly salary. His gross annual income for the 2019/2020 tax year is made up of his basic monthly salary and annual bonus. He contributes 7, 5 % of his basic monthly salary towards his pension fund, but no pension contribution is deducted from his annual bonus.

The table above showing the annual income tax deductions for individuals and special trusts for the 2019/2020 tax year above is used by Mr Mokoena to calculate his income tax payable to SARS.

NOTE:

- Annual income tax is calculated on income after the total pension contributions have been deducted.
- Income tax payable on annual bonus amounts is spread equally over 12 months.

8.1.1 Calculate Mr. Mokoena's gross annual taxable income.

8.1.2 Use the annual income tax table above to calculate his annual income tax payable for the year ending 28 February 2020.

8.2 The table above gives us a guideline as per the South African Revenue Service. The Minister of Finance determines South African Tax when he delivers his budget speech in mid-February each year. The table covers changes made in February 2019.

For the 2019 financial year, Mr. Nondo earns R223 000, 00 p.a. (per annum). Using the above tables, answer the questions that follow:

8.2.1 Determine Mr. Nondo's tax bracket?

8.2.2 Calculate the amount Mr. Nondo has to pay per year

8.2.3 Calculate Mr. Nondo's monthly contribution.

8.3 Noluthando has just finished studying at university and will start her new job in 2019 where she will earn R76 000, 00 per year. She falls into the 18% tax bracket. In addition to the tax she has to pay, she has various other monthly expenses. Noluthando pays the following on a monthly basis:

- Groceries – R850,00
- Petrol – R450,00
- Clothes – R350,00
- Rent – R1250,00
- Entertainment – R200,00
- Evening classes at university – R1050,00

Answer the following taking into consideration the above budget.

8.3.1 Calculate Noluthando's annual tax?

8.3.2 Calculate Noluthando's monthly net after tax.

8.3.3 Calculate Noluthando's total monthly expenses.

8.3.4 Calculate Noluthando's balance after tax, and her expenses have been deducted.

8.3.5 If Noluthando receives a 5% increase on her total salary each year from 2019, calculate the amount she will receive by 2022.

(*Note: ignore tax; 2020, 2021 and 2022 are the years of increase)