

## TEMPLATE- GRADE 12 LEARNER DOCUMENTS

### TOPIC: FINANCE

### SECTION: TAXATION

### OBJECTIVES

By the end of this section the learners should be able to:

- Explain concepts such as, (Income tax, gross income, tax rebates, tax threshold, etc.)
- Determine an individual taxable income
- Calculate personal income tax
- Determine net pay
- Identify the name of the employee listed on a pay slip and the month for which the pay slip has been issued.
- Identify the employee's monthly salary.
- Explain how the employees "taxable income" has been determined by referring to the salary and deduction values shown on the payslip.
- Explain the meaning of the terms "gross pay", "net pay", "deductions", and "taxable income" shown on a payslip.
- Read appropriate tax values from given income tax deduction tables.
- Identify the income tax bracket into which an individual falls based on a given monthly and/or annual income.
- Use formulae provided on income tax bracket tables to calculate an individual's annual and monthly income tax.
- Investigate through calculation how the tax rebate value is determined. Compare income tax tables over different financial periods and explain how an individual's tax may have changed

### TERMINOLOGY

- **Gross income:** is the total income received by an employee/individual before deductions are taken out or subtracted.
- **Taxable income:** Is an amount of money that an employee or individual receives after an amount of pension fund contribution has been subtracted or deducted.
- **Tax threshold:** it determines whether an individual is required to pay income tax (PAYE) or not according to their specified income level and age.
- **Tax rebates:** Is an amount which reduces the amount of tax that an individual was supposed to pay according to their age. In other words, it must be subtracted on the Income tax a person must pay.
- **Medical tax credits:** it also reduces an amount of income tax, but only for those individuals that have a medical aid scheme.
- **Taxable deductions** i.e. medical aid and pension fund UIF
- **Non-taxable deductions** i.e. car allowance

### NOTES

<p>Taxation and Income Tax</p> <p>Two types of Tax</p> <ul style="list-style-type: none"> <li>• VAT: The money paid by consumers (people buying) and businesses.</li> <li>• Income Tax: The money paid by working people, earning a salary above the tax threshold.</li> </ul> <p>All income tax and VAT is paid to SARS.</p>	<p>Explain the difference between “taxation” and tax:</p> <ul style="list-style-type: none"> <li>• Taxation: The government’s process of getting tax money from the workers or businesses.</li> <li>• Tax: The money that a person or business pay to SARS.</li> </ul> <p>Ask the learners to explain “income tax”.</p> <p>Use the learners’ explanation to give further explanation of income tax.5. Convert to appropriate / unit as requested. Know your conversions!</p>
<p><b>Step 1:</b></p> <p>Calculating Income Tax:</p> <ul style="list-style-type: none"> <li>• Calculate the annual income.</li> <li>• Multiply the monthly salary by 12 to make it the annual salary and add extra benefits.</li> </ul>	<p>Explain the terms:</p> <p><b>Annual income:</b></p> <p>All the income a person earned over the year.</p> <p><b>Income is:</b></p> <ul style="list-style-type: none"> <li>• wages (money earned per hour);</li> <li>• salary (money earned per month);</li> <li>• bonuses;</li> <li>• commissions; and</li> <li>• overtime.</li> </ul> <p>Do not use only salary to calculate income.</p>

<p><b>Step 2:</b></p> <p><b>Calculating non-taxable income:</b></p> <ul style="list-style-type: none"> <li>• UIF- 1% of income</li> <li>• Pension fund: 7,5%</li> <li>• Donations (charity gift to charity organisation)</li> <li>• Child support payments</li> </ul> <p>A donation will be exempted(not added) if the total value of donations for a year of assessment is not more than:</p> <ul style="list-style-type: none"> <li>• casual gifts by companies and trusts:R10 000; and</li> <li>• donations by individuals: R100 000.</li> </ul>	<p>Explain the concepts.</p> <p>Assist learners to find the non-taxable income on the Salaryadvice.</p>
<p><b>Step 3:</b></p> <p><b>Calculating the taxable income:</b></p> <p>Taxable income = total income - non-taxable income</p>	
<p><b>Step 4</b></p> <p><b>Tax threshold:</b></p> <ul style="list-style-type: none"> <li>• Use the tax table to see if the person must pay tax.</li> <li>• The person whose income is lower than the tax threshold does not pay tax.</li> </ul>	<p>Ask the learners to look at the tax table.</p> <p>See if the person must pay tax.</p> <p>Explain tax threshold.</p>
<p><b>Step 5:</b></p> <ul style="list-style-type: none"> <li>• Identify the tax bracket.</li> <li>• Copy the bracket.</li> <li>• Calculate payable tax before the rebates and medical credits could be subtracted.</li> </ul> <p>NB: Remember order of calculations!</p>	

<p><b>Step 6:</b></p> <ul style="list-style-type: none"> <li>• Identify the rebate.</li> <li>• Calculate the annual medical credits.</li> <li>• Subtract the rebate and medical credits from the calculated tax in step 4.</li> </ul> <p><b>Rebate:</b></p> <ul style="list-style-type: none"> <li>• Is the tax relief (pay less).</li> <li>• It is deducted after annual tax has been calculated.</li> <li>• The older the person, the higher the rebate.</li> <li>• People younger than 65 get the primary rebate.</li> <li>• People above 65 qualify for both primary and secondary rebates.</li> <li>• People above 75 qualify for primary, secondary and tertiary rebates.</li> </ul>	<p>Explain “tax rebate”.</p> <p>Show the tax table to the learners.</p> <p>Show the rebates indicated on the given tax table.</p> <p>Explain age related additional rebates.</p>
<p><b>Medical tax credit:</b></p> <ul style="list-style-type: none"> <li>• <b>Monthly medical rebate.</b></li> <li>• Relieving (make less) personal tax; irrespective of the income.</li> <li>• More dependants on medical aid = higher medical tax credit.</li> <li>• <b>Dependants:</b> <ul style="list-style-type: none"> <li>o First dependant = main member.</li> <li>o Second/third dependant etc = other members on your medical aid.</li> </ul> </li> </ul>	<p>Explain medical tax credit.</p> <p>Show the medical tax credit on the given tax table.</p> <p>Explain dependants:</p> <ul style="list-style-type: none"> <li>• The people who are on your medical aid.</li> </ul>

## **INCOME TAX: INDIVIDUALS AND TRUSTS 2016/2017**

<b>Taxable income (R)</b>	<b>Rate of Tax (R) Tax bracket</b>
0 – 188 000	18% of taxable income
188 001 – 293 600	33 840 + 26% of taxable income above 188 000
293 601 – 406 400	61 296 + 31% of taxable income above 293 600
406 401 – 550 100	96 264 + 36% of taxable income above 406 400
550 101 – 701 300	147 996+ 39% of taxable income above 550 100
701 301 and above	206 964 + 41% of taxable income above 701 300

### **TAX REBATES**

Primary	R13 500
Secondary (Persons 65 and older)	R7 407
Tertiary (Persons 75 and older)	R2 466

### **TAX THRESHOLDS**

<b>AGE TAX</b>	<b>THRESHOLD</b>
Below age 65	R75 000
Age 65 to below 75	R116 150
Age 75 and over	R129 850

### **MEDICAL TAX CREDIT RATES 2016/2017 YEAR OF ASSESSMENT**

R286 per month for the taxpayer who paid the medical scheme contributions

R286 per month for the first dependant

R192 per month for each additional dependant (s)

### **NOTE**

- 1. Calculate taxable income**
- 2. Use it in correct tax bracket and calculate**
- 3. Identify rebate or calculate rebates**
- 4. Calculate medical tax credit**
- 5. Answer of step 2 – Answer of step 3- Answer of step 4 (subtract all)**
- 6. Annual Tax, that is our final answer (MONTHLY – We have to divide answer in step 5 by 12)**

## WORKED EXAMPLES

**EXAMPLE**

Antonia Zim's Salary Slip	
HANSMARENKY	
No.308 John Ross Highway Durban 4000	Contact No. 033 474 0301 Fax No: 033 474 0300 Email: <a href="mailto:hansmarenky@mar.co.za">hansmarenky@mar.co.za</a>
Employee name: Antonia Zim	Tax reference number 1592399017
Employee Designation: Technician	Department: Information Technology
Salary period: 01-06-2019 to 30-06-2019	
Earnings	Deductions
Basic salary R25 800	Tax RSA R2 540,52
Travel Allowance R4700	Pension fund (7,5% of the basic salary) B
Housing Allowance R1 200	Medical Aid (4 dependants) R3 876,59
Gross SalaryA	UIF R148.72
Nett pay C	Total deductions

Use the salary slip above to answer the questions that follow

- 1.1 Explain the term "net pay" on the pay slip. (2)
- 1.2 Calculate the values of A, B and C (7)
- 1.3 Explain why the UIF amount is R148,72 (2)

**SOLUTIONS**

- 1.1 Net pay is the salary after deductions (2)
- 1.2  $A = 25800 + 4700 + 1200 = R31700$  (2)
- $B = 7.5\% \times 25800 = R1935$  (2)
- Total Deductions =  $1935 + 3876,59 + 2540,52 + 148,72 = R8500,83$
- $C = 31700 - 8352.11 = R23199,17$  (3)

**Example 2**

Mr Mlambo is 65 years old. He is still working and earns a taxable income of R347 171 per annum for the year 2018/2019. He contributes to a medical aid fund for himself and his wife.

**INDIVIDUAL INCOME TAX OF TAX ENDING 28 FEBRUARY 2019**

Taxable Income (R)	Rates of tax (R)
0-195 850	18% of each rand
195 851 – 305 850	35 253 + 26% of the amount above 195 850
305 851 – 423 300	63 853 + 31% of the amount above 305 850
432 301 – 555 600	100 263 + 36 % of the amount above 423 300
555 601- 708 310	147 891 + 39% of the amount above 555 600
708 311- 1 500 000	207 448 + 41% of the amount above 708 310
1 500 001 – and above	532 041 +45% of the amount above 1 500 000
REBATES	Amounts
Primary rebate	R14 067
Secondary rebate – 65 years and older	R7 713
Tertiary rebate – 75 years and older	R 2 574
Medical tax credit per month	Amounts
Tax payer	R310
First dependent	R310
Each additional dependent	R209

1.1 Why is it necessary for citizens to pay tax? Give two reasons(4)



## SOLUTIONS

1.1 Because tax is the Governments main source of income. The government will be able to do his economic activities, such as, providing infrastructure, social grants,etc.

1.2 Tax bracket 3: R63 853 + 31% of taxable income above R305 850

$$= R63\ 853 + 31\% \times (R347\ 171 - R305\ 850)$$

$$= R63\ 853 + 31\% \times R41\ 321$$

$$= \mathbf{R76\ 662,51\ tax\ before\ rebates}$$

$$= R76\ 662,51 - (R14\ 067 + R7\ 713)$$

$$= R54\ 882,51 - (R310 + 310) \times 12$$

$$= \mathbf{R47\ 442,51\ tax\ per\ annum}$$

$$= 47\ 442,51 \div 12$$

$$= \mathbf{R3\ 953,54\ tax\ per\ month}$$

## ACTIVITY1 [11 marks]

TABLE 1 below shows the tax rates for individuals for the 2019/2020 tax year. Happy (68 years old) received a taxable income of R2 045 364 for the 2019/2020 tax year. He paid a monthly contribution of R3 500 towards a medical aid scheme for himself, his wife and one child.

### Tax Rates for Individuals

2019/2020 tax year (1March 2019-28 February 2020)

Taxable Income (R)	Rates of tax (R)
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REBATES	Amounts in ZAR
Primary rebate	R14 067
Secondary rebate – 65 years and older	R7 713
Tertiary rebate – 75 years and older	R 2 574
Medical Scheme tax Rebates per month	Amounts ZAR
Tax payer	R310
Tax payer + First dependent	R620
Each additional dependent	R209

1.1 Calculate Happy's total medical scheme tax Rebate for the year. (3)

1.2 Hence, calculate the amount of income tax he had to pay for the 2019/2020 tax year. (8)

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1.1 Calculate Happy's total medical scheme tax Rebate for the year. (3)

1.2 Hence, calculate the amount of monthly income tax he had to pay for the 2019/2020 tax year. (8)

### ACTIVITY 2 [22 MARKS]

Mr Mlambo is a 54-year-old employee at the Gauteng Department of Education. He contributes 7,5% of his monthly basic salary towards the GEPP (Government Employees Pension Fund) He receives a bonus that is equivalent to his monthly basic salary. The bonus is tax deductible. He pays medical aid for his 3 children and his wife. He also receives a housing allowance that is tax deductible.

### RATES OF TAX FOR INDIVIDUAL

2017 tax year (1 march 2016 – 28 February 2017)

Taxable Income (R)	Rates of tax (R)
0-188 000	18% of each rand
188 001-293 600	33 840 + 26% of taxable income above 188 000
293 601-406 400	61 296 + 31% of taxable income above 293 600
406 401-550 100	96 264 + 36% of taxable income above 406 400
550 101 – 701 300	147 996 +39% of taxable income above 550 100
701 301and above	206 964 +41% of the taxable income above 701 300

<b>Tax Thresholds</b>	<b>(R)</b>
Persons under 65	75 000
Persons above 65 and older	116 150
Persons 75 and older	129 850
<b>Tax rebate</b>	<b>Amount in Rands</b>
Primary	13 500
Secondary 65 and older	7 407
Tertiary 75 and older	2 466
<b>Relief for medical expenses</b>	<b>Rebate per month (R)</b>
Tax payer	286
Tax payer + First dependent	572
Each additional dependent	192

**Mr H.S Mlambo's salary advice**

Initial and surname	Job title	Organisation	NOTCH
H.S Mlambo	Head of department	K5 Gauteng Educ.	315 714,49
Pay date	Deposit institution	Account number	Branch
20160630	Standard bank	.....1325	52850
Number of dependants	Gross salary	Deductions	Nett salary
A=1 C=3	53 819,16	B	C
Earnings		Deductions	
Basic salary	26 309,58	Tax RSA	4 561,97
Bonus	26 309,58	GEPF	A
Housing Allowance	1 200	GEMS	3 222,00
		Sanlam	89,00
		Naptosa	70
		SACE	10,00

Use the salary advice and tax table above to answer questions that follow.

2.1 Determine the values of A, B and C in his salary advice (6)

2.2 Define the term taxable income in the context. (2)

2.3 Use calculations to show how the value of R61 296 on the tax table for the 3<sup>rd</sup> tax rate, was calculated. (3)

2.4 Mr Mlambo complained, that even though his housing allowance is tax deductible, he still believes he is overtaxed on monthly basis. Use calculations to verify his statement. (11)

**ACTIVITY 3 [18marks]**

Tom who is 52 years old is an employee at Research Company. He earned a monthly income of R29 000, including bonus (once in October, every year) of which is equivalent to the monthly income in for the 2018/2019 tax year.

- He contributes 7,5% of his basic salary to the pension fund.
- He also donates R46 800 per annum to the registered charity organisation, the donation is tax deductible
- He contributes R4 550 to the medical aid monthly, for himself and 2 children.
- His monthly income was increased by 7% in the 9<sup>th</sup> month of 2018.

<b>Taxable Income in ZAR</b>	<b>Tax rates in ZAR</b>
0-195 850	18% of each rand
195 851 – 305 850	35 253 + 26% of the amount above 195 850
305 851 – 423 300	63 853 + 31% of the amount above 305 850
423 301 – 555 600	100 263 + 36 % of the amount above 423 300
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<b>REBATES</b>	<b>Amount in ZAR</b>
Primary rebate	R14 067
Secondary rebate – 65 years and older	R7 713
Tertiary rebate – 75 years and older	R 2 574
<b>Medical tax credit per month</b>	<b>Amount in ZAR</b>
Tax payer	R310

First dependent	R310
Each additional dependent	R209

3.1 What is the name of the tax collecting agency that is used by the South African Government to collect tax? (2)

3.2 Determine his annual taxable income. (7)

3.3 Calculate his annual medical tax credits (3)

3.4 Hence, calculate his annual income tax (6)

### ENRICHMENT ACTIVITY [13 marks]

#### RATES OF TAX FOR INDIVIDUAL

2017 tax year (1 march 2016 – 28 February 2017)

Taxable Income (R)	Rates of tax (R)
0-188 000	18% of each rand
188 001-293 600	33 840 + 26% of taxable income above 188 000
293 601-406 400	61 296 + 31% of taxable income above 293 600
406 401-550 100	96 264 + 36% of taxable income above 406 400
550 101 – 701 300	147 996 +39% of taxable income above 550 100
701 301 and above	206 964 +41% of the taxable income above 701 300
Tax Thresholds	(R)
Persons under 65	75 000
Persons above 65 and older	116 150
Persons 75 and older	129 850
Tax rebate	Amount in Rands
Primary	13 500
Secondary 65 and older	7 407
Tertiary 75 and older	2466

1.1 Show how the value of R96 264 in tax bracket 3 was calculated. (4)

1.2 During August 2014 Miss Gumede's monthly salary of R29 915 was increased by 7.5%, and she had a monthly tax of R6 667,90. Verify by calculations if the tax amount is correct by using the rates of tax of individual above (9)