

K9: Taxation

Key Words	Meaning
Gross Salary	the salary earned before deductions
Net Pay	money that the employee takes home after all the deductions have been made
Fringe Benefits	benefits that do not form part of your pension bearing income
UIF	Unemployment Insurance Fund, financial provision should you became unemployed
Tax Rebate	an amount that may be deducted after tax has been calculated-e.g. medical aid
Tax Threshold	minimum salary that a person must earn before tax is charged
Taxable deductions	deductions from salary, but not before calculating tax owed-e.g. PAYE and UIF
Tax deductible expenses	subtracted from gross salary, before tax is calculated e.g. pension
PAYE	Pay As You Earn, monthly tax payed so you do not pay one big amount in February
IRP5	A statement issued by employer of the total amount that employee has earned, deductions made and tax deducted from employee's salary
Remuneration	Money that is earned through work (salary, wages)

PERSONAL INCOME TAX TABLES: 2014 TAX YEAR

TAXABLE INCOME	TAX PAYABLE
0 – 174 550	18% of the taxable income
174 551 – 272 700	31 419 + 25% of taxable income above 174 550
272 701 – 377 450	55 957 + 30% of taxable income above 272 700
377 451 – 528 000	87 382 + 35% of taxable income above 377 450
528 001 – 673 100	140 074 + 38% of taxable income above 528 000
673 101 AND ABOVE	195 212 + 40% of taxable income above 673 100

Tax discounts

- Primary discount R12 726
- Additional discount (for persons 65 and older) R 7 110
- Additional discount (for persons 75 and older) R 2 367

Tax treshhold

- Persons under 65 R 70 700
- Persons 65 years and older R 110 200
- 75 years and older R123 350

Exercise 1 Tax

- (a) Karen (65yrs) is a saleslady and is employed by the state. She receives a gross salary of R16 821,75 per month during 2014/2015 tax year. Each month PAYE (current tax system), as well as contributions to the Pension Fund and Medical Fund are subtracted from her salary. The undermentioned table shares her salary advice for June 2014 for the 2014/15 tax year.

Karen's salary advice for June 2014

Pay date: 20140630			Notch: B R 201 861,00		
Earnings			Deductions		
Item	Description	Amount	Item	Description	Amount
0001	Basic salary	16 021,75	0001	PAYE	2 091,86
0554	Accommodation	800,00	0002	Pension (7,5%)	1 201,63
			0005	Medical fund	546,00
			0006	UIF	R 168,22
	GROSS SALARY	A R 16 821,75		Total deduction	D R 4 007,71
				NETT SALARY	E R 12 814,04

- (i) What is her GROSS salary per month?(A)
(ii) If your notch is your basic salary times 12, calculate Karen's notch (B)
(iii) What percentage of your gross salary must you pay for UIF?
(iv) What must Karen pay per month for UIF? (C)
(v) What will her NETT salary per month be, after all deductions have been made? (D&E)
(vi) What is the current VAT rate? 14%
(vii) Does the displayed price for consumer goods (e.g. in a supermarket) include or exclude VAT? Include

i) R 16 821,75 (A) ii) R 201 861,00

iii) 1% iv) $\frac{1}{100} \times R 16 821,75 = R 168,22$

v) A (R 16 821,75)
- D (R 4 007,71)
= E R 12 814,04

- (b) The tax laws for medical aid contributions changed. Medical aid contributions is no longer deducted from gross salary to determine the taxable income, but it is deducted from the tax itself.

People older than 65 can still deduct the medical contributions from the gross salary before calculating the taxable income.

Medical Tax credits: 2014/2015 year of assessment is as follows:

R257 per month for the taxpayer who paid the medical scheme contributions.

R257 per month for the first dependant on his medical scheme.

R172 per month for each additional dependant(s) on his medical scheme.

Complete the medical aid tax credit table (change every year)

Taxpayer + dependant	Medical Tax Credit	
	Per month	Per month
Taxpayer (1)	R 257	R 3 084
Taxpayer+ 1 dependant	R 514	R 6 168
Taxpayer + 2 dependants	R 686	R 8 232
Taxpayer + 3 dependants	R 858	R 10 296

Study the table (pg. 66) and answer the following questions.

- (c) What is the payable tax if the earnings per year is R665 000? (Accept that the person is younger than 65 years of age and has 3 medical aid dependants.)

Annual income		R 665 000
Deductions	Pension $0,075 \times 665000$	- R 498 75
Taxable income (subtract)		R 615 125
Tax Bracket	$140\ 074 + 0,38 (615\ 125 - 528\ 000)$ $= R\ 173\ 181,50$	
Discount	$R\ 12\ 726 + 7110$ Total: R 19 836	- R 19 836,00 $= R\ 153\ 345,50$
Medical Tax Credit	R 10 296	- R 10 296,00
Total tax for the year		R 143 049,50
PAYE	$R\ 143\ 049,50 \div 12$	R 11 920,79

- (d) What is the payable tax for a 75-year-old for the 2014 tax year if his earnings is R56 250 per month? (Medical aid deductions is R2000 per month)

Annual income	$R\ 56\ 250 \times 12$	R 675 000,00
Deductions	Pension $0,075 \times 675000$ Medical Tax Credit 2000×12 Total:	R 50 625,00 - R 24 000,00 R 74 625,00
Taxable income		R 600 375,00
Tax Bracket	$140\ 074 + 0,38 (600\ 375 - 528\ 000)$ $= R\ 167\ 576,50$	
Discount	$R\ 12\ 726$ $R\ 7\ 110$ $R\ 2\ 367$ Total R 22 203	R 167 576,50 R 22 203,00
Total tax for the year		R 145 373,50
PAYE	$145\ 373,50 \div 12$	R 12 114,46

- (e) How much tax would a 30-year old person pay who earns R60 000 per month? He has no medical aid dependants.

Annual income	$60\,000 \times 12$	R 720 000
Deductions	Pension $0,075 \times 720\,000$	R 54 000
Taxable income (subtract)		R 666 000
Tax Bracket	$R 140\,074 + 0,38 (666\,000 - 528\,000)$ =	R 192 514,00
Discount	R 12 726	-R 12 726,00
Medical Tax Credit	Total:	R 3 084,00 R 15 810,00
Total tax for the year	$R 192\,514 - R 15\,810$	R 176 704,00
PAYE	$R 176\,704 \div 12$	R 14 725,33

- (f) How much tax would a person younger than 65 pay, whose taxable income is R70 700 per year. He has no medical aid fund. Show all your calculations.

Taxable income		R 70 700,00
Tax Bracket	$0,18 \times 70\,700$ = R 12 726	R 12 726
Discount		- R 12 726
Total tax for the year		R 0

- (g) For City of Tswane (1 July 2012-30 June 2013 financial year) the rate for residential property tax was 1,35 cent in the rand and for business and commercial properties it was 2,70 cent in the rand.

- (i) Calculate the municipal tax for a residential property in 2012 valued at R2,5 million.

$$\underline{1,35 \div 100 \times 2\,500\,000 = R 33\,750}$$

- (ii) Calculate the municipal tax for a business property in 2012 valued at R2,5 million.

$$\underline{2,7 \div 100 \times 2\,500\,000 = R 67\,500}$$

- (iii) Calculate the municipal tax for residential property in 2012 valued at R900 000,00.

$$\underline{1,35 \div 100 \times R 900\,000 = R 12\,150}$$

- (iv) Calculate the municipal tax for a business property in 2012 valued at R900 000,00.

$$\underline{2,7 \div 100 \times R 900\,000 = R 24\,300,00}$$