Class Exercise

7.1 The table below shows the income tax brackets for the 2016/2017 financial year.
(Source: South African Revenue Service, 2016 Budget Tax Guide, p.2)

Income Tax Brackets 2008/2009

Income Tax for Individuals

Tax Bracket	Taxable Income (R)	Rates of Tax (R)
1	0 - 188 000	18% of each R1
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	13 500
Secondary (Persons 65 and older)	7 407

Tax Threshold

Age	Tax Threshold (R)
Below age 65	75 000
Age 65 and over	116 150

7.2 Solly is a 28 year-old who earns R15 090 per month.

7.2.1 Use the tax table for 2016/2017 above to calculate Solly's monthly income tax contribution.

7.2.2 If Solly is given a 13th cheque at the end of every year, how will this affect the total amount of tax that he has to pay on his salary?

7.2.3 If Solly is given an 8% increase on his gross salary, how much of the increase will he actually receive after tax every month?

(For this question, ignore the 13th cheque and work with 12 salaries for the year.)

Answers

7.1.2 R17 100,00 per month = 17 100 × 12 months
= R205 200,00 per year
= Tax bracket 2

7.1.3 Primary rebate of R13 500,00

7.1.4 65 years and older

7.2.1 Annual income = R15 090 × 12
= R181 080

∴ Annual tax = $\frac{18}{100}$ × R181 080 (tax bracket 1)
= R32 594,40

∴ Actual tax = R32 594,40 - R13 500
= R19 094,40

∴ Monthly tax = R19 094,40 ÷ 12
= R1 591,20

7.2.2 Annual income with 13th cheque
= R181 080,00 + R15 090,00
= R196 170,00 (tax bracket 2)

Yearly tax
= R33 840,00 + 25% × (R196 170,00 - R188 000,00)
= R33 840,00 + 25% × R8 170,00
= R33 840,00 + R2 042,50
= R35 882,50

Actual tax payable per year
= R35 882,50 - R13 500,00 (primary rebate)
= R22 382,50

So, receiving a 13th cheque will mean that Solly will pay R22 382,50 - R19 094,40 = R3 288,10 more tax during the year.

7.2.3 Old salary = R15 090,00 per month
New salary = R15 090,00 + 8% × R15 090,00
= R15 090,00 + R1 207,20
= R16 297,20

New annual salary = R160 297,20 × 12
= R195 566,40 (tax bracket 2)

Yearly tax
= R33 840,00 + 26% × (R195 566,40 - R188 000,00)
= R33 840,00 + 26% × R7 566,40
= R33 840,00 + R1 967,26
= R35 807,26

Actual tax payable per year
= R35 807,26 - R13 500,00 (primary rebate)
= R22 307,26
= R1 858,94 per month

So, increase in salary of R1 207,20 (8%) brings about an increase in tax of R1 858,94 - R1 591,20 (monthly tax on original salary) = R267,74.

So, the amount of the increase in salary that Solly will actually take home is R939,46.