

ICE TASK - LV3 + PUBLIC SECTOR

(CH15)

Question 4

(Marks: 8)

The following table shows the projected budget deficit for South Africa over the next four years.

	2012/13	2013/14	2014/15	2015/16
Budget balance (R billion)	-168.0	-163.7	-153.2	-134.4
Budget balance as percentage of GDP	-5,2%	-4,6%	-3,9%	-3,1%

(National Treasury. Budget 2013 Highlights)

- Q.4.1 Briefly explain why there is a budget deficit of R168 billion for 2012/13. (1)
- Q.4.2 Explain how the planned decrease in the budget deficit can be achieved. (2)
- Q.4.3 Does the trend show that government is applying a contractionary, or an expansionary fiscal policy over the next four years? (2)
- Q.4.4 Among the tax proposals for the 2013/ 14 budget is the following:
"Cigarettes increase by 60c to R10,92 per packet of 20."
- Q.4.4.1 The tax is a/ an (direct/ indirect) tax. (1)
- Q.4.4.2 The tax is (regressive/ proportional/ progressive), as everyone pays the same amount of tax. (1)
- Q.4.4.3 The tax is a (specific/ ad valorem) tax. (1)

QUESTION 4**(15 Marks)**

You are given the following information, based on South Africa's Budget for 2012/2013:

Tax rates for individuals: 2012/2013 tax year

Taxable income	Tax Payable	
Rand		
0 - 160 000		18% of each R1
160 001 – 250 000	R 28 800	+ 25% of the amount above R160 000
250 001 – 346 000	R 51 300	+ 30% of the amount above R250 000
346 001 – 484 000	R 80 100	+ 35% of the amount above R346 000
484 001 – 617 000	R 128 400	+ 38% of the amount above R484 000
617 001 and above	R 178 940	+ 40% of the amount above R617 000
Tax Rebates		
Primary		R 11 440
Additional (Persons 65 and older)		R 6 390
Tertiary (Persons 75 and older)		R 2 130
Tax Threshold		
Below age 65		R 63 556
Age 65 to below 75		R 99 056
Age 75 and over		R110 889

<<http://www.oldmutual.co.za/markets/south-african-budget/income-tax-calculator.aspx>>

(viewed Monday 11 June 2012)

Below is a worked example of how to use the table.

Worked example:

Calculate how much tax an individual who is 25 years of age, on an annual salary of R184 800 per year, would pay.

Tax on R160 000	= R28 800	
Marginal Tax on R 24 800	= <u>R6 200</u>	(24 800 x 0.25 = 6 200)
Total	= R35 000	
Less: primary rebate	(R11 440)	
Total tax payable:	R23 560	

Average rate of tax: (Total tax payable/Taxable income) x 100
= (23 560/ 184 800) x 100
= 2.75%

Use the above framework to answer the following questions, rounding your final answers to two (2) decimal places.

- 4.1 Calculate how much tax an individual 45 years of age, on an annual salary of R278 000 per year, would pay. (3)
- 4.2 Calculate the average rate of tax paid by an individual earning R278 000 per year. (3)
- 4.3 A 57 year old man is a partner in a law firm. His total income for the year, including bonuses, is R1 440 000. Calculate how much tax he must pay on his income. (3)
- 4.4 Calculate the average rate of tax paid by an individual earning R1 440 000 per year. (3)
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- 4.5 Find out about the excise duty on 750ml spirits (e.g. whisky, vodka, etc.), and then answer the following questions:
- 4.5.1 Explain why the excise duty on spirits is an *ad valorem* or a specific tax. (1)
- 4.5.2 Explain why you would regard this tax on spirits as a proportional, progressive, or regressive tax. (2)