A Guide to Taxation and Exchange Rates

Teaching Approach

In Grade 12, taxation and exchange rates is covered in the third term over a period of three weeks.

This topic can be very interesting as most people are fearful of income tax, this gives a basic understanding of what is involved in the tax calculations. We all want to holiday overseas or live in another country so exchange rates will also be an interesting lesson to teach learners.

Although much of the basic knowledge that learners will use they would have been covered in earlier grades it is advisable to revise this knowledge while exploring these subjects to get learners comfortable with questioning the information at their disposal.

When teaching finance to learners is important that you show learners as many different examples of pay slips, IRP5 formats and currency tables with literature of other countries prices of certain goods. Collect and share these with learners.

The videos included in this series do not need to be watched in any particular order. Summaries of the skills and contexts of each video are in this document, allowing you to find something appropriate quickly and easily. Both videos fit easily into a lesson with time to discuss the content and do some related work.

You will find a selection of tasks covering the required skills in the task video. These tasks have not been linked to the videos so that they can be used without viewing them.
Video Summaries
Some videos have a ‘PAUSE’ moment, at which point the teacher or learner can choose to pause the video and try to answer the question posed or calculate the answer to the problem under discussion. Once the video starts again, the answer to the question or the right answer to the calculation is given.

Mindset suggests a number of ways to use the video lessons. These include:
- Watch or show a lesson as an introduction to a lesson
- Watch of show a lesson after a lesson, as a summary or as a way of adding in some interesting real-life applications or practical aspects
- Design a worksheet or set of questions about one video lesson. Then ask learners to watch a video related to the lesson and to complete the worksheet or questions, either in groups or individually
- Worksheets and questions based on video lessons can be used as short assessments or exercises
- Ask learners to watch a particular video lesson for homework (in the school library or on the website, depending on how the material is available) as preparation for the next day's lesson; if desired, learners can be given specific questions to answer in preparation for the next day's lesson

1 Calculating Income Tax
In this video we join Michael and explain and show how his tax payable is calculated using salary tables and bracket formula tables. The result on his taxable income is also explained when his salary is increased.

2 Planning a Holiday in another Country
In this video we explain how you use estimation as a way to calculate the value of a currency relative to the rand. The video also includes how you use exchange rates when planning a trip abroad.

Resource Material
Resource materials are a list of links available to teachers and learners to enhance their experience of the subject matter. They are not necessarily CAPS aligned and need to be used with discretion.

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<td>Medical credits</td>
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<tr>
<td>2 Planning a Holiday in another Country</td>
<td><a href="http://www.oanda.com/currency/">www.oanda.com/currency/</a> converter/</td>
<td>Currency converter</td>
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Task

Question 1
Koos has just started working at Delta Engineering Works as an assistant engineer. His basic salary is R11 456-00. He contributes 5% of his basic salary to a pension fund. He can claim up to R860 for pension contributions as a tax deduction. He must also contribute to UIF at a rate of 1% of basic salary. According to the new laws governing the deduction of medical costs he only qualifies for a rebate on his tax of R230,00 p.m. Using this information and the tables supplied, answer the following questions.

1.1 Calculate the amount that Koos will pay as his pension fund contribution.
1.2 Calculate the monthly amount that he will pay for UIF.
1.3 Determine his taxable income.
1.4 Using the monthly tax table provided how much tax will Koos pay every month?
1.5 Koos gets a promotion to junior engineer and his salary increases by 15%. Determine his new tax deduction assuming the tax rates have remained the same.

Question 2
The senior engineers at Delta Engineering earn annual pensionable salaries of R374 670,00 with bonuses usually calculated according to the productivity of the business. Mr Fazel is one of the directors and he received a non-pensionable bonus of R80 000-00 for the year. He is married and has three children who are all members of his medical aid.

He contributes an amount of R89 700 -00 for medical aid per annum.
He contributes 7% to the pension fund

Using the tables shown here, determine Mr Fazel’s tax liability to SARS for the 2013/2014 tax year. (Show all the relevant calculations)
Mr Honi wants to go to Australia to explore the different sites and definitely a visit to the Sydney Opera house. He was told that this could be expensive. He was given the following information regarding Australia.

Rand / US dollar exchange rate: R9,87 / US$

US dollar / Australian dollar exchange rate: 1$ US / 1,14 A$

Petrol price in Australia A$1,51
Car Hire in Australia A$1200 pd
Entry to Opera house US$ 31,05

Draw up an approximate budget for his trip in South African currency (ZAR). He will be visiting the Opera house once and he will be hiring a car and travelling about 2500km with a small car that he will hire in Sydney. He will be travelling for 5 days. He will also use about 220 litres of fuel on his journey.
Task Answers

Question 1

1.1
\[ R11456 \times 5\% = R572.8 \]

1.2
\[ R11456 \times 1\% = R114.56 \]

1.3
\[ R11456 - R572.80 = R10883.2 \]

1.4 R951.00 as read off the table less what he gets for his medical tax credit of R230.00 therefore he pays R721.00 per month

1.5 New salary:
\[ (R11456 \times 15\%) + R11456 \]
\[ = R13174.40 \]

Pension contribution:
\[ R13174.40 \times 5\% = R658.72 \]

Taxable income:
\[ R13174.40 - R658.72 = R12515.68 \]

Reading off the tables R1 245,00 is payable less R230 for the medical tax credit

= R1015,00 per month in tax

Question 2

Pensionable salary = R374 670.00
Non-pensionable bonus = R80 000.00
Gross income = R454 670.00
Pension fund contribution = \[ R374670.00 \times 7\% = R28100.25 \]
Taxable income = Gross income – allowable deduction (Pension)
\[ = R454 670.00 - R28100.25 \]
\[ = R426569.75 \]

Using the tax bracket formula the salary band is:

<table>
<thead>
<tr>
<th>Taxable Income (R)</th>
<th>Rate of Tax (R)</th>
</tr>
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<tbody>
<tr>
<td>358 111 – 500 940</td>
<td>82 904 + 35% of taxable income above 358 110</td>
</tr>
</tbody>
</table>

\[ R82904.00 + 35\% \times (426569.75 - 358110) \]
\[ = R82904.00 + 35\% \times 68459.75 \]
\[ = R106864.91 \]

Less the primary rebate of R12 080 his calculated tax liability is
\[ R106864.91 - R12080 \]
\[ = R94784.91 \]

Now because he belongs to a medical aid with his wife and three children he gets a tax credit of: R960 therefore his tax liability for the year is: R93824.91
Question 3

Before we start with the budget we need to convert some of the information into a common currency.
The Opera House entry is listed in US$. Converted it is A$35,397
1 A$ = R8.66

Budget for Mr Honi

<table>
<thead>
<tr>
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<th>In A$</th>
<th>Est.</th>
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<tbody>
<tr>
<td>Opera House visit</td>
<td>35.40</td>
<td>A$36</td>
</tr>
<tr>
<td>Car hire</td>
<td>6000</td>
<td>R4 800,00</td>
</tr>
<tr>
<td>Petrol use</td>
<td>332.20</td>
<td>R2 720,00</td>
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He will need approximately R7808.00 for his excursions in Australia.

Acknowledgements

Mindset Learn Executive Head: Dylan Busa
Content Manager Classroom Resources: Jenny Lamont
Content Coordinator Classroom Resources: Helen Robertson
Content Administrator: Agness Munthali
Content Developer: Bazil Johnson
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