



CONSUMER STUDIES: SUMMARISED NOTES

GRADE 12 – TERM 2



TAXES, INTEREST RATES AND INFLATION

1 TAXES



SARS: South African Revenue Service.

South Africans pay taxes to SARS and therefore they act, on behalf of the government, as a tax collector.

In this way the government receives a government revenue from all the taxpayers in the country.



Why should we pay taxes?

Income tax is the largest source of government revenue.

- The government needs money to function.
- Used to: Fund social and economic programmes / pension funds / public services and goods, such as: schools, roads, universities, roads, clinics, defence and safety.
- Citizens are legally obliged to pay taxes.



The budget speech is published annually by the Minister of Finance. It provides a breakdown of the country's revenue and expenditure.

Current (2022) Minister of Finance:
Min. Enoch Gondongwana



Tax evasion

■ Illegal methods used to reduce the amount of tax you have to pay to the state.

(Only partial declaration of one's income on which tax is paid)



Tax avoidance

■ Legal methods, used through proper financial planning, to reduce a person's tax burden.

(For example, by taking out a retirement annuity)





Different types of taxation

Direct taxation	Indirect taxation
Contribute to the wealth of the government to the same extent as they contribute to their own wealth.	Tax hidden in the price of goods and services.
<ul style="list-style-type: none">• Income tax (PAYE and provisional tax)• Capital gains tax• Property tax• Transfer duty• Estate duty	<ul style="list-style-type: none">• VAT – Value-Added Tax• Excise duties and levies• Customs duties• Licenses• Environmental levy

Description of different types of direct taxes



Income tax

Charged on your income - any salary, bonus, overtime & amount received.

It also includes investments, leases, annuities, pensions, capital gains and dividends.

This is the government's main source of income.

PAYE – Pay as you earn

Employers deduct it from their employee's income and pay it directly to SARS. Helps to split tax in monthly contributions throughout the year. The employer issues an IRP5 (tax certificate) to their employees to set out all the money that has been paid over to SARS.

Provisional tax

Paid by people earning an irregular income (farmers / freelancers / business owners). - IRP6

Two instalments throughout the year. Based on an estimated taxable income from that of the previous year.



Capital gains tax

Tax on profits made when an asset is sold.



Transfer duty

Tax on all real estate transactions. Paid by the buyer during registration. The higher the purchase price the higher the transfer duty. No transfer duty on a property of <R 1000 000 as from 2021.



Property tax

Tax paid by homeowners to a municipality. Calculated according to the value and location of the property. Used by the municipality to provide services and facilities in the community.



Estate duty

Tax to be paid on an estate (total of all assets **(money and properties)** as well as debt) after someone's death.

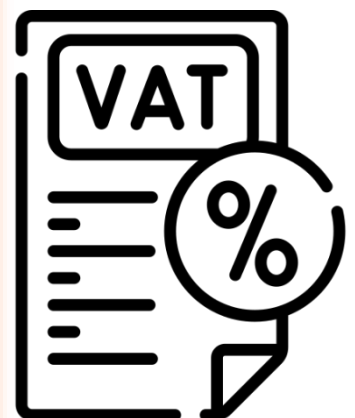


Description of different types of indirect taxes

VAT

Value-added tax

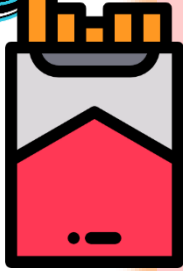
Added to the price of goods and services sold. Everyone pays VAT regardless of their income. Standard rate of 15%. Paid to the government. Some items exempt from VAT - 0% (Brown bread / brown flour / maize flour / fresh fruit and vegetables / canned sardines / lentils / squash / dried maize / rice / cooking oil / mealie rice / eggs / dry beans)





Excise duties and levies (sin taxes)

Tax levied on non-essential items. Fuel / Tobacco products / Alcohol / Motor vehicles / Electronic equipment / Perfume



Customs duties

Tax on all goods from abroad entering our country. The importer pays it directly to the government.



Licenses

Must be paid in advance in order to be allowed to own an item: Car license / TV license / Fishing license / Hunting license (permit) / Rifle license. These licenses must be renewed annually.

Environmental levy

To protect the environment. Charges on plastic bags, non-energy saving light bulbs & electricity generated from coal.



2 INTEREST RATES

The cost of money loans.

Thus: The cost or the extra money you have to repay when you borrow money.

Calculated in a %. If you borrow R100 at a 10% interest rate, you will have to repay a total of R110.





Methods to calculate interest rates:

Simple interest

Only calculated on the original amount you borrowed / invested.

Compound interest

Calculated on the original amount but also on the interest already received. (Interest on interest)



Interest rates

- Expressed as a % of the full amount.
- Calculated over a period of 1 year.
- High interest rates: more expensive to borrow money (you have to repay more)
- Determined by the type of loan made: Car financing has a much higher interest rate than a home loan.
- Includes overdrafts and credit cards (Very high interest rates)





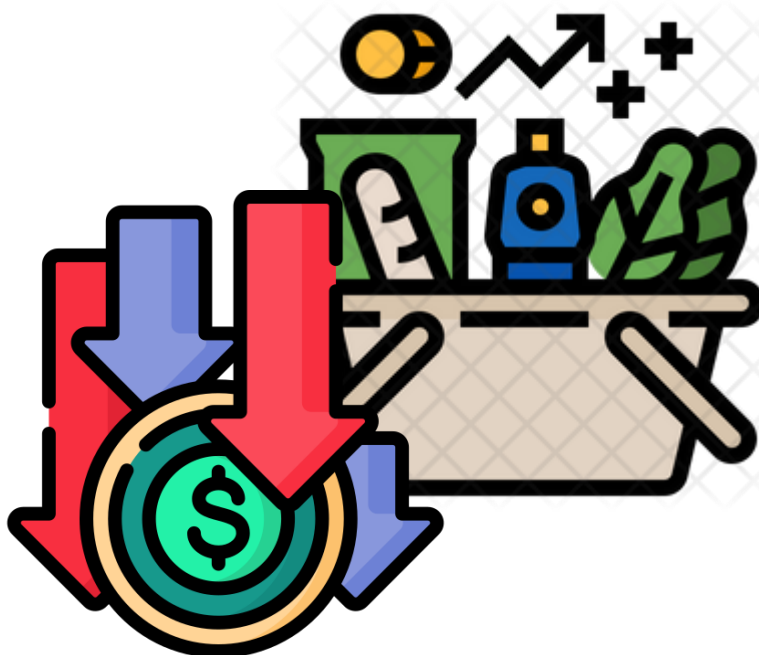
Types of interest rates

Fixed interest rates	Variable (flexible) interest rates
Stay the same for the full period of the loan. (Stay constant - do not fluctuate)	Interest rates which will fluctuate on a loan. (Change as interest rates change = fluctuate)
<ul style="list-style-type: none"> • Even if interest rates increase / decrease during this period, no more / less interest will be paid. • Instalment always remains the same. • Provides more security and better financial planning can be done. 	<ul style="list-style-type: none"> • Beneficial if interest rates decrease - thus reducing the repayment instalment. • Adverse if interest rates increase - thus increasing the repayment instalment. • Difficult to determine budgets.

3 INFLATION

The sustained increase in the prices of goods and services.

Thus: It reduces the purchasing power of the consumer or of the currency involved.

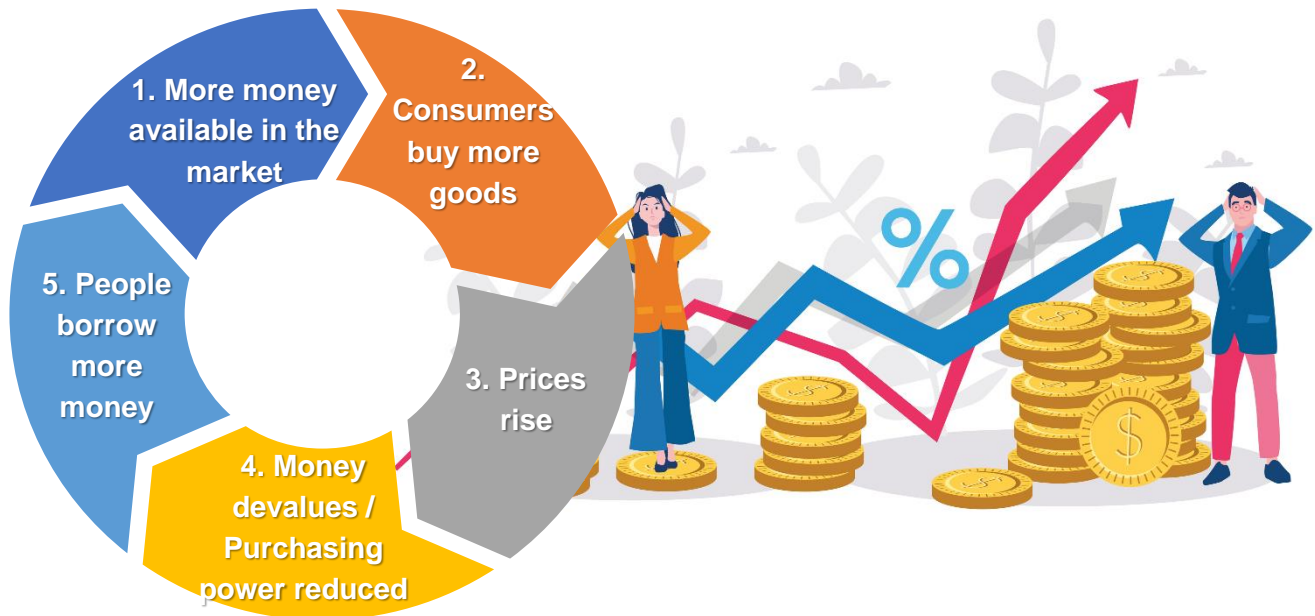


Example: A loaf of bread cost R9.80 a few years ago. The same bread is currently available on store shelves at R14.60



How inflation works:

- We can suppress inflation if we increase interest rates.
- It will force people not to borrow money - people will not be able to buy as many goods as in the past.



Inflation rate:

- The % at which prices of goods and services increase in one year.
- Calculated by means of the consumer price index (CPI).

CPI (Consumer price index):



= A tool used to calculate **price increases** and the **inflation rate**.

If the **CPI figures** are available, the **inflation rate** can be **calculated**. Expressed as the **percentage difference** between 2 months.

Show the **change** in the **cost** of a **hypothetical basket** of **goods and services** bought by a **typical household**.

The **inflation rate**: always expressed as an **annual rate**.

E.g.: 8% per year



The impact of inflation on the consumer:

Your money has less buying power – this means that you can buy less with the same amount of money before.

Standard of living declines / need to be adjusted.

Wages / salaries do not increase with the same rate as inflation. This will force you to make adjustments to your budget.

People lose money on their savings if the inflation rate becomes higher than the interest rate they earn on their savings.



People who have loans to repay will save money because the loan is now worth less than initially borrowed.

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