

No-One Pays Individual Tax At 25%! By Jonathan Hore

Well, I know the topic of today's article may have got you confused a little bit but don't worry, you will be settled by the time you finish reading. Most of you may know that individuals are taxed at sliding scales and any income above P12 000/month or P 144 000/annum is taxed at 25%. So, that alone gives people the impression that high income-earners pay tax at 25%. Well, that is not entirely true as there is something called effective tax rate, which I will analyse below. In this article, words importing the masculine shall be deemed to include the feminine.

How personal tax works

Personal tax is tax that is levied on income earned by an individual whether from employment, investments, partnerships or from a business run by a sole trader. Technically, personal tax is a direct tax which is chargeable on a particular individual based on the income that they earn. Employees get PAYE deducted on a monthly basis by their employers but that is income tax in their hands. Individuals are taxed using the individual tax tables which exempts the first P36 000/annum from tax. This explains why employers don't deduct PAYE from employees who earn not more than P 3 000/month. The next P36 000 above the exempt P 36 000 is taxed at 5%, followed by 12.5%, 18.75% and the excess above P 144 000 is taxed at 25%. To close this paragraph, a partner cannot suffer PAYE from salaries drawn from a partnership as PAYE can only be deducted by an employer. A partner in a partnership is not technically employed by anyone; rather, partners are self-employed.

Effective tax is below 25%

There is something which we call the effective tax rate. This is not anything complicated but it is merely an expression of the total tax charge as a percentage of the total income earned by a taxpayer. I narrate below the reasons why non-one in this country ever pays personal tax at an effective tax rate of 25%:

- **1st P36 000 isn't taxed:** I stated above that the first P36 000 is exempt from personal tax. Now, that has the effect of pulling down the effective tax rate as not all your income is subject to tax. In other words, the first P 36 000 is taxed at 0%.
- **Staggered rates:** Any amount above the first P36 000 is taxable but again, the rates are much lower than 25%, being 5% for the next P36 000 above the non-taxable P 36 000, 12.5% for the next P36 000 above the 5% bracket, 18.75% on the next P36 000. The last bracket, being anything above P12 000/month or P 144 000 per annum is then subject to tax at 25%. You don't have to be a rocket scientist to understand the above; all I am saying is that there are layers of lower tax rates below the 25% threshold and the effect of that is a reduced effective tax rate.

Conclusion

By way of conclusion, let me use figures to show you the effective tax rates for different incomes. For example, a person who earns P 180 000/annum pays tax at an effective tax rate of 12.25% whilst the effective tax rate on income of P 360 000/annum is 18.625%. On the extreme side, someone who earns P10m/annum pays tax at an effective rate of 24.771%. Ok, how many people do you know who earn more than P10m a year? Very few or none, I guess. But no matter how much one earns, they will never pay tax at an effective rate of 25% for the reasons stated above.

Well folks, I hope that was insightful. As Yours Truly says goodbye, remember to pay to Caesar what belongs to him. If you want to join our Tax Whatsapp group, send me a text on the cell number below.