# Answers

Marks

**1** Ms Liphoto

**(a)** Employment income does not include:

| | | Marks |
|---|---|---|
| – | Benefits included in the fringe benefits taxable amount subject to fringe benefit tax. | 1 |
| – | Exempt fringe benefits. | 1 |
| – | The reimbursement of expenditure incurred by an employee on behalf of the employer for which the employer would be entitled to a deduction. | 1 |
| – | Passage granted to an employee at the commencement or termination of employment. | 1 |

Examples:
- Car or housing fringe benefits.
- Meal or refreshments fringe benefits available to all non casual employees on equal terms.
- Travel expenses incurred by an employee while on duty on behalf of the employer.
- Food or housing or any form of allowance which does not form part of employment income given by employer to employee to meet day to day expenses.

Note: there are no specific examples in relation to the last two types of income or benefits, but any example which will satisfy said benefits will be acceptable.

4

**(b)** **Tax payable for the year ended 31 March 2007**

| | M | Marks |
|---|---|---|
| Basic salary | 250,000 | 1 |
| Housing allowance | 25,000 | 1 |
| Education allowance | 5,000 | 1 |
| Commission | 120,000 | 1 |
| Entertainment allowance | 18,000 | 1 |
| Holiday travel allowance | 9,800 | 1 |
| Gross income | 427,800 | |
| *Less:* superannuation contributions | (16,667) | 1 |
| Chargeable income | 411,133 | |
| Tax payable (37,378*22%) + (373,755*35%) | 139,037 | 1 |
| *Less:* Personal tax credit | (4,500) | 1 |
| Net tax payable | 134,537 | |
| No adjustments for the running costs relating to the car | | 1 |
| | | 10 |

**(c)** Allowable superannuation fund contribution M57,000 1
The whole amount contributed by MMB is allowable because it is below ((487,800*20%) – 16,667) M68,893 1

Note: Employment income is used to calculate the maximum amount which may be claimable by MMB instead of basic salary.

2

**(d)**

| Fringe benefits tax payable | M | Marks |
|---|---|---|
| Car fringe benefit (290,200*15%) | 43,530 | 1 |
| Utilities | 19,320 | 1 |
| Cell phone (1,300*12) | 15,600 | 1·5 |
| Loan (see working) | 1,100 | 0·5 |
| Taxable values | 79,550 | |
| Taxable amounts (79,550/·65) | 122,385 | 0·5 |
| Fringe benefits tax (122,385*35%) | 42,835 | 0·5 |

| | | Marks |
|---|---|---|
| **Working** | | |
| Taxable value for loan fringe benefit | | |
| (30,000*2/3*14·5%) – (30,000*6%) | 1,100 | 2 |
| | | **7** |

**(e)** Fringe benefits tax returns are submitted within 14 days for each quarter ending:

| | Marks |
|---|---|
| 30 June | 0·5 |
| 30 September | 0·5 |
| 31 December | 0·5 |
| 31 March | 0·5 |
| | **2** |
| | **25** |

**2 (a) Mookoli Investment Holdings (Pty) Ltd (MIH)**

**(i)**

| Income tax instalments for the year to 31 October 2008 | M | |
|---|---|---|
| Tax payable for the year ended 31 October 2007 | 180,125 | 0·5 |
| *Less:* foreign tax credit | (23,200) | 0·5 |
| withholding taxes | (4,800) | 0·5 |
| | 152,125 | |
| *Add:* advanced corporation tax (ACT) | 65,200 | 0·5 |
| | 217,325 | |
| Each instalment (217,325*30%) | 65,198 | 1 |

Due dates for each instalment

| | | |
|---|---|---|
| First instalment | 30 April 2008 | 1 |
| Second instalment | 31 July 2008 | 0·5 |
| Third instalment | 31 October 2008 | 0·5 |
| | | **5** |

**(ii)**

| Advance corporation tax (ACT) | M | |
|---|---|---|
| Dividends paid on 31 August 2008 | 150,300 | |
| ACT (150,300*25/75) | 50,100 | 1 |
| Payable on or before 7 September 2008 | | 1 |

ACT payable can be set-off against the instalments paid. Therefore, as the instalments paid exceed the ACT payable on the dividend, no actual payment of ACT will be required. 2

**4**

**(iii)**

| Reconciliation of taxable income for the year ended 31 October 2008 | M | |
|---|---|---|
| Profit for the year as per the financial statements | 682,360 | 0·5 |
| *Add:* amounts resulted in understatement of chargeable income: | | |
| <u>Expenses disallowed</u> | | |
| Depreciation: Premises | 25,090 | 0·5 |
| Equipment | 35,075 | 0·5 |
| Vehicle | 155,225 | 0·5 |
| Donation to charity | 25,000 | 1 |
| Cost of partitions (80,900*70%) | 56,630 | 1 |
| Gain on disposal of land (140,500 – 90,700) | 49,800 | 2 |
| | 346,820 | |
| *Less:* amounts resulted in overstatement of chargeable income: | | |
| Exempt dividends income (46,700*30%) | (14,010) | 1 |
| <u>Tax deductible expenses</u> | | |
| Depreciation allowance (see workings): | | |
| Equipment | (22,448) | 0·5 |
| Vehicle | (116,419) | 0·5 |
| Chargeable income | 876,303 | |

| | | | Marks |
|---|---|---|---|
| **Workings:** | | | |
| Depreciation allowance: | | | |
| | | M | |
| Equipment | | | |
| 1 September 2006 cost | | 140,300 | |
| Depreciation (20%) | | 28,060 | 1 |
| 1 September 2007 ACB | | 112,240 | |
| Depreciation | | 22,448 | 1 |
| 1 September 2008 ACB | | 89,792 | |
| | | M | |
| Vehicle: | | | |
| 1 September 2006 cost | | 620,900 | |
| Depreciation (25%) | | 155,225 | 1 |
| 1 September 2007 ACB | | 465,675 | |
| Depreciation | | 116,419 | 1 |
| 1 September 2008 ACB | | 349,256 | **12** |

| | | | |
|---|---|---|---|
| **(iv)** Corporation tax payable | | M | |
| Chargeable income | | 876,303 | 0·5 |
| Tax payable at 25% | | 219,076 | 1 |
| *Less:* foreign tax credit | (46,700*70%*10%) | (3,269) | 1 |
| Withholding taxes | (39,330*10%) | (3,933) | 1 |
| ACT | | 0 | 1 |
| Instalments | | (195,594) | 1·5 |
| Net tax payable | | 16,280 | **6** |

**(b)** The Commissioner may disallow interest expense where a resident company which is not principally engaged in the money-lending business has a debt to equity ratio in excess of 3 to 1. The expense disallowed will be the interest on that part of the debt in excess of this ratio. **3**

**30**

**3 JKP Properties Ltd (JKP)**

(1) JKP will claim input VAT by producing a VAT invoice to the Lesotho Revenue Authority (LRA). The LRA in turn will claim VAT paid by JKP from the South Africa Revenue Service (SARS). This is in compliance with the Lesotho-South Africa Double Taxation Agreement. 2

Input VAT (130,000*14/114) M15,965 1

(2) There is no input VAT claimable with respect to 70% of the cost incurred on premises used for manufacturing purposes because it is an exempt supply. 1

Input VAT (30%*72,600*14/114) M2,675 1

(3) The supply of water is exempt 1

(4) There is no input VAT claimable by JKP in respect of staff refreshments because this is not a supply for furtherance of business. 1

(5) There is no output VAT with respect to the rent received from the non-manufacturing business, because this is an exempt supply 1

Output VAT (40%*250,900*14/114) M12,325 2

(6) As in (i) JKP will claim input VAT by producing a VAT invoice to the LRA, and the LRA will in turn claim the VAT paid by JKP from SARS, in compliance with the Lesotho-South Africa Double Taxation Agreement. 1

Input VAT (3,300*14/114) M405 1

(7) The supply is treated as successively supplied for successive parts of the period of the agreement. Therefore each payment or instalment constitutes a separate supply of office furniture by BEDCO. 2

Input VAT (30,100*14/114) M3,696 1

**15**

| | | | Marks |
|---|---|---|---|

**4 (a) Palesa**

**(i)** The transfer of assets to the partnership constitutes a disposal to the partnership. The gain on transfer is recognised for tax purposes because Palesa's interest in the new reconstituted partnership is below 50%. 3

The tax payable:

| | | M | |
|---|---|---|---|
| Chargeable income | (40,500 + 42,300) | 82,800 | 1 |
| Tax payable 8,223 + (45,422*35%) | | 24,121 | 1 |
| *Less:* personal tax credit | | (4,500) | |
| Net tax payable | | 19,621 | 2 |
| | | | **7** |

**(ii)** If the interest of Palesa in the partnership was 55%, there will be no recognition of either gain nor loss, until the subsequent disposal of the said assets by the partnership, when Palesa will be liable for her share of gain or loss after deducting her initial contribution of M82,800. **3**

**(b) Option 1**

This is a self-provided superannuation fund, the proceeds of which will be subject to a flat rate tax at 25%, which is a final tax. 2

**Option 2**

The lumpsum payment will be exempt from tax because it will be rolled into another complying superannuation fund. 2

This implies that the payment and therefore, the tax will be deferred for two years until the subsequent payout is made by the other superannuation fund. 1

**5**

**15**

**5 (a)** (1) A Lesotho source services contract paid to a non-resident. 1
It is subject to 10% withholding tax of M12,050. [s.108(1)] 1

(2) Lesotho source management fees paid to non-resident. 1
They are subject to 25% withholding tax of M3,875. [s.107(1)] 1

(3) A payment to a resident contractor which is in excess of M3,000. 1
It is subject to 5% withholding tax of M1,270 on the gross payment. [s.157(1)] 1

(4) Lesotho source dividends paid to non-residents. 1
Dividends paid to the holding company are subject to 25% withholding tax of M4,200. [s.107(1)] 1
Dividends paid to the associate company are subject to 10% withholding tax of M1,440. The lower tax rate is applicable because of the tax treaty between Lesotho and South Africa. 1·5

(5) Lesotho source services contract paid to non-residents. 1
They are subject to 10% withholding tax of M850. [s.108(1)] 1·5

**12**

**(b)** A withholding agent who fails to withhold tax as required by the withholding tax provisions is guilty of an offence and personally liable on conviction: 0·5
- to a fine not exceeding M10,000; 1
- or to imprisonment for a term not exceeding two years; 1
- or both. 0·5

**3**

**15**