

Fundamentals Level – Skills Module

Taxation (Lesotho)

Monday 1 December 2008

Time allowed

Reading and planning: 15 minutes

Writing: 3 hours

ALL FIVE questions are compulsory and MUST be attempted.
Tax rates and allowances are on pages 2–3.

Do NOT open this paper until instructed by the supervisor.

During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet until instructed by the supervisor.

This question paper must not be removed from the examination hall.

The Association of Chartered Certified Accountants

The Lesotho Institute of Accountants



Paper F6 (LSO)

SUPPLEMENTARY INSTRUCTIONS

- 1 Calculations and workings need only be made to the nearest M.
- 2 All apportionments should be made to the nearest month.
- 3 All workings should be shown.

TAX RATES AND ALLOWANCES

The following tax rates and allowances are to be used in answering the questions.

Second Schedule (Section 9(1))

Resident individual income tax rates

Chargeable income	Rate of tax
First M37,378	22%
Over M37,378	35%
Commercial farming income	15%
Personal tax credit	M4,500

Third Schedule (Section 10)

Resident company income tax rates

Nature of income	Rate of tax
1. Manufacturing income derived from a manufacturing activity of an industrial, scientific or educational nature which promotes industrial, scientific, educational or other development within Lesotho.	10%
2. Other manufacturing income	10%
3. Other income	25%

Fourth Schedule (Sections 109, and 116)

Tax rate for fringe benefits and electing non-residents

The applicable rate is 35%

Sixth Schedule

(Section 41)

Declining balance depreciation rates

Group	Depreciation rate	Assets included
1	25%	Automobiles; taxis; light general purpose trucks; tractors for use over-the-road; special tools and devices.
2	20%	Office furniture; fixtures and equipment; computers and peripheral equipment and handling equipment; buses; heavy general purpose trucks; trailers and trailer mounted containers; construction equipment.
3	10%	Any depreciable asset not included in another group.
4	5%	Railroad cars and locomotives and railroad equipment; vessels, barges, tugs and similar water transportation equipment; industrial buildings; engines and turbines; public utility plant.

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Question 1 begins on page 5.

ALL FIVE questions are compulsory and MUST be attempted

1 Ms Liphoto, a Lesotho resident, is employed by Maluti Mountain Brewery Ltd (MMB) as its Chief Marketing Officer. In addition to her annual basic salary of M250,000, she received the following benefits and payments for the year of assessment ended 31 March 2007:

- (1) A company car which was valued at M290,200 when it was first provided to her in 2005. With regard to maintenance, fuel and service costs of the car, the policy of MMB is to reimburse the employee on provision of substantiating receipts of the costs incurred up to a maximum limit of M5,500 per month. Ms Liphoto submitted receipts amounting to M6,400 per month.
- (2) A housing allowance of 10% of her basic salary. Ms Liphoto owns a mansion at White City in Maseru, which is her principal residence, and she lives there with her entire family.
- (3) MMB reimburses Ms Liphoto every month for payments made in respect of electricity and water consumption for her principal residence based on receipts provided by her. The total amount reimbursed for the year amounted to M19,320
- (4) A cell phone allowance of M1,300 per month payable to Vodacom Lesotho.
- (5) Sales commission based on her monthly performance of M120,000 in total for the year.
- (6) An education allowance of M2,500 per annum for children between the ages of 6 and 21 years. Ms Liphoto has two children who are still in high school. They are fourteen and sixteen years of age respectively.
- (7) An entertainment allowance of M1,500 per month.
- (8) A holiday travel allowance of M9,800 per annum. Ms Liphoto spent a total of M12,500 on holiday travel during the year. She paid the excess out of her own pocket.
- (9) On 1 April 2006, Ms Liphoto obtained a personal loan for M30,000 from her employer, MMB, for 12 months at the interest rate of 6% per annum. The Central Bank discount rate averaged 14.5% throughout the year ended 31 March 2007.
- (10) Ms Liphoto contributed M16,667 to MMB's approved superannuation fund. MMB contributed M57,000.

Required:

- (a) List the four types of income or benefits that are excluded from the calculation of taxable employment income and give an example of each type.** (4 marks)
- (b) Calculate the income tax payable by Ms Liphoto for the year of assessment ended 31 March 2007.** (10 marks)
- (c) State the amount of superannuation fund contributions for which Maluti Mountain Brewery Ltd may claim a tax deduction.** (2 marks)
- (d) Calculate the fringe benefits tax payable by Maluti Mountain Brewery Ltd in respect of Ms Liphoto for the year of assessment ended 31 March 2007.** (7 marks)
- (e) State the due dates for the submission of fringe benefits tax returns by employers.** (2 marks)

(25 marks)

- 2 (a) Mookoli Investment Holdings (Pty) Ltd (MIH), is a Lesotho resident company, whose main business activities are the letting of business premises and the buying and selling of land. The company commenced its operations on 1 September 2006.

For the financial year ended 31 October 2008, MIH's financial statements reflected a profit for the year amounting to M682,360.

The following information was extracted from the financial statements:

	Notes	M
Income	1	1,600,200
Less: operating expenses	2	(1,120,140)
Operating profit		480,060
Add: other income	3	202,300
Profit for the year		682,360

Notes:

1. Income consists of rental income derived from the letting of business premises.
2. Operating expenses include the following:
 - (i) Depreciation
It is the policy of the company to calculate depreciation using the straight-line basis on all assets in existence at the end of the financial year irrespective of the date of purchase.
The company's fixed assets, which were all acquired on 1 September 2006 are as follows:

	Total cost M	Depreciation rate (p.a) %
Office premises	250,900	10
Office equipment	140,300	25
Vehicle	620,900	25

 There have been no changes made to fixed assets since the commencement of the business.
 - (ii) Donation
M25,000 was donated to charity in July 2008.
 - (iii) Other expenses
These include repairs of M80,900 incurred in respect of the office premises.
70% of this amount related to the erection of partitions in the premises.
3. Other income
 - (i) Dividends
In total M46,700 of dividends were received. 70% of the dividends comprise foreign source income, which has been included gross of foreign withholding tax at the rate of 10%. The remaining 30% is Lesotho source income.
 - (ii) Interest received
M35,400 of interest was received from Lesotho financial institutions.
4. Gain on disposal of land
In January 2008 MIH sold a piece of land to the Lesotho Housing Development Corporation (LHDC) for M120,200. The fair market value of the land at the date of sale was M140,500. The land had been acquired for M90,700 on 30 November 2007. There was no record of this transaction in the books of the company.

Additional information

- (i) On 31 August 2008, MIH paid dividends of M150,300.
- (ii) For the year of assessment ended 31 October 2008, MIH's tax payable before deduction of M23,200 and M4,800 for foreign tax credit and withholding taxes respectively, but after deduction of M65,200 of advanced corporation tax (ACT) was M180,125.
- (iii) MIH's self-assessment return for the year ended 31 October 2008 disclosed chargeable income of M876,303.

Required:

- (i) **Calculate the income tax instalments payable by Mookoli Investment Holdings (Pty) Ltd (MIH) for the year of assessment ended 31 October 2008 and state the due date for the payment of each instalment.** (5 marks)
- (ii) **Calculate the advanced corporation tax payable by MIH in respect of the dividends paid on 31 August 2008, state the due date of payment and explain how, exactly, the liability will be satisfied.** (4 marks)
- (iii) **Reconcile MIH's accounting profit for the year ended 31 October 2008, of M682,360, with the income chargeable to tax in the self-assessment return of M876,303.**

Note: you should begin your computation with the figure for accounting profit. (12 marks)

- (iv) **Calculate the corporation tax payable by MIH for the year of assessment ended 31 October 2008.** (6 marks)

- (b) KB Construction Limited (KBC), a Lesotho resident construction company declared an operating loss for the year ended 30 November 2007. Included in its operating expenses is an interest expense which is significantly higher than that of most similar companies. The interest relates to a long-term loan taken to finance KBC's business operations.

Required:

State the circumstances in which the Commissioner may disallow a deduction for interest paid. (3 marks)

(30 marks)

- 3** JKP Properties Ltd (JKP) is a Lesotho resident company and a local registered vendor for value added tax (VAT). JKP's core business is the letting and management of residential and business premises to the local community. Currently, the company is in the process of renovating its premises.

The following information relates to JKP's VAT position for the month of September 2008. All figures are inclusive of VAT where appropriate.

- (1) Received building materials at a total cost of M130,000 from Prestige Hardware Suppliers in Bloemfontein, South Africa. The building materials were collected by JKP from Prestige Hardware Suppliers' premises.
- (2) A payment of M72,600 to BCC Construction Pty, a local vendor. This was in respect of the renovation operation on some of the company's premises. 70% of the cost was partly for the business premises used by a manufacturer for the purpose of manufacturing. 30% was partly for the portion of a building rented to a business merchant.
- (3) A payment of M5,600 to the Water and Sewerage Authority (WASA) for water supply.
- (4) A payment of M2,550 for staff refreshments.
- (5) Received M250,900 in total monthly rental income analysed by type of tenant as follows:
 - 10% residential
 - 60% manufacturing businesses
 - 30% non-manufacturing businesses.
- (6) A payment of M3,300 for repairs to one of the company's computer systems by CVC Computers in Ladybrand, South Africa. The system was taken to CVC Computers' premises for repair.
- (7) A purchase of office furniture from BEDCO Maseru, a local registered vendor on a deferred agreement. The total cost of the furniture is M120,400 and JKP was required to pay M30,100 as a down payment. The remaining amount will be settled by three instalments payable in October, November and December respectively.

Required:

Explain the value added tax (VAT) implications of each of the above transactions including any procedures necessitated by the transactions with South African firms and compute the input or output VAT, if any.

Note: you should deal with each transaction independently.

(15 marks)

- 4 (a) Palesa, a resident of Lesotho, has operated as a hairdresser in Maseru for the past five years. However, due to the high competition in this kind of business, she decided to close her salon at the end of October 2007. In November 2007, she entered into a partnership with her two friends, Thembi and Mary, who were already in partnership with each other, trading as Turning Heads Salon.

Palesa's contribution to the new reconstituted partnership comprised the following assets:

	Adjusted cost base	Market value
	M	M
Equipment	40,500	35,200
Motor van	38,900	42,300

Palesa's interest in the new reconstituted partnership is 45%.

Required:

- (i) Explain the tax implications of Palesa's transfer of her assets to Turning Heads Salon and calculate any tax payable by Palesa as the result of the transfer. (7 marks)
- (ii) Explain how your answer in (i) would change if Palesa's interest in the new partnership was 55% instead of 45%. (3 marks)
- (b) Ms Moshe, a self-employed resident of Lesotho, has a two-year approved self-provided superannuation fund with Metropolitan Ltd, a resident investment company. The maturity date of her policy is on 3 January 2009. There are two options available to Ms Moshe when the policy matures. Firstly, she could accept the lump sum payment on maturity of the policy; or secondly, she could renew the policy for a further two years.

Required:

Explain the tax implications for Ms Moshe in respect of each of the above two options. (5 marks)

(15 marks)

- 5** Victory Civil and Structural Engineers (Pty) Ltd (VCSE) is a Lesotho resident subsidiary of a Namibian holding company. VCSE has operated in Lesotho for the past three years, its transactions for the year ended November 2008 included the following:
- (1) A payment of M120,500 to ITECH Limited, a South African company, for the installation of a new financial system.
 - (2) A payment of management fees amounting to M15,500 in respect of directorship to some of the directors in the Namibian holding company.
 - (3) A payment of M25,400 to Machache Carpet Fitters Cleaners, a Lesotho resident company, for the provision of cleaning services in VCSE's premises.
 - (4) A payment of dividends to the holding company in Namibia and to an associate company in South Africa of M16,800 and M14,400 respectively.
 - (5) Received new office equipment worth M60,700 from Executive Office Supplies (Pty) Ltd, a South African company. The equipment was delivered by ZML Couriers Ltd, which is also a South African company. M8,500 was paid for this delivery service.

Required:

- (a) **In the case of each of the above transactions, compute the amount of tax, if any, which should have been withheld under ss.107, 108 and 157 by Victory Civil and Structural Engineers (Pty) Ltd, clearly identifying the reason why withholding tax is deductible.** (12 marks)
- (b) **State the penalties applicable to a withholding tax agent who fails to withhold tax in accordance with the withholding tax provisions.** (3 marks)

(15 marks)

End of Question Paper