Answers

Marks

1 Mrs Phamotse

(a) Chargeable income for the year ended 31 March 2008

	Business income Store	Business income Farm	Property income	Employment income	Marks
	M	M	M	M	
Sales	85,100	120,600			1
Bad debts recovered	300				1
Interest			15,600		1
Exempt interest (FNB)			(500)		1
Salary				42,000	1
Gross income	**85,400**	**120,600**	**15,100**	**42,000**	1
Allowable deductions:					
Bad debts	520				1
Wages and salaries	23,500	28,400			1
Pension contributions	8,000				1
Finance lease interest (W1)		687			½
Finance lease depreciation (W2)		1,536			½
Other expenses	55,380	49,300			1
	87,400	79,923	–	–	
Chargeable income/(allowable loss)	**(2,000)**	**40,677**	**15,100**	**42,000**	

No offset of store loss against farming income. 1

Workings:

1. Finance lease interest calculation

Year	Opening balance	Interest 10%	Repayment	Closing balance	Marks
	M	M	M	M	
2004/05	15,000	1,500	3,957	12,543	1
2005/06	12,543	1,254	3,957	9,840	1
2006/07	9,840	984	3,957	6,867	1
2007/08	6,867	687*	3,957	3,597	1

2. Finance lease depreciation calculation

Year	Opening balance	Depreciation 20%	Closing balance	Marks
	M	M	M	
2004/05	15,000	3,000	12,000	½
2005/06	12,000	2,400	9,600	½
2006/07	9,600	1,920	7,680	½
2007/08	7,680	1,536*	6,144	½

*Allowable deductions for the year of assessment ended 31 March 2008. 18

(b) Tax payable for the year ended 31 March 2008

	Amount	Tax rate	Tax payable	Marks
	M		M	
Farming income	40,677	15%	6,102	½
Employment and property income				
First	35,060	25%	8,765	½
Balance	22,040	35%	7,714	½
	57,100		22,581	
Personal tax credit			(3,500)	½
Tax payable			19,081	

The tax is payable on or before 30 June 2008. 1

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	Marks
(c) Treatment of trading losses	
(1) Farming losses A farming loss may not be deducted against other income of a taxpayer, but shall be carried forward and deducted against farming income in the subsequent years of assessment.	1
(2) Business loss A business loss may not be deducted against other income of a taxpayer, but shall be carried forward and deducted against business income in subsequent years of assessment. For example, Mrs Phamotse's business loss of M2,000 in (a), above.	1
A foreign-source business loss may only be offset against foreign-source business income.	1
(3) Manufacturing loss A manufacturing loss may not be deducted against other income of a resident company, but shall be carried forward and deducted against manufacturing income in subsequent years of assessment.	1
	4
	25

2 Maluti Ceramic Tiles (Pty) Ltd

(a) Advance corporation tax (ACT) payable:

	M	Marks
Dividends paid	180,800	
Less paid out of qualified income (60%)	108,480	1
	72,320	
ACT payable (72,320*25/75)	24,107	1
The ACT is payable on or before 22 November 2007.		1
		3

(b) Utilisation of ACT

ACT paid can be:

		Marks
(i)	Set off against instalments of tax due	1
(ii)	Set off against the corporation tax (CT) liability net of instalments paid	1
(iii)	Set off against the value added tax (VAT) liability	1
(iv)	Carried forward and set off against instalments of tax due, CT liability and VAT liability in subsequent year(s) of assessment	1
		4

(c) Chargeable income for the year ended 31 December 2007

	Business income		Property income	Marks
	Manufacturing	Other		
	M	M	M	
Sales: Local	240,600	135,300		1
Exports (US$69,200 x 7·5)	519,000			1
ABSA interest			37,882	1
Nedbank interest (16,800 x 100/90)			18,667	1
Zambian dividends			54,600	1
Lesotho dividends			0	$^1/_2$
Share disposal gain (US$41,750 x 7·5)			313,125	1
Gross income	759,600	135,300	424,274	
Less allowable deductions:				
Cost of sales and operating expenses	271,959	48,441		$1^1/_2$
Amortisation of copyrights (56,500/5)	11,300			2
	283,259	48,441	0	
Chargeable income	**476,341**	**86,859**	**424,274**	
				10

		M	Marks
(d)	**Corporation tax payable for the year ended 31 December 2007**		
	Manufacturing income at 10%	47,634	1
	Non manufacturing income at 25%	127,783	1
		175,417	
	Less: Foreign tax credit (W)	(156,555)	1/2
	Local withholding tax	(1,867)	1
		16,995	
	Less: ACT paid (restricted)	(16,995)	1
	Final tax payable	nil	1/2

Working:

Average Lesotho tax rate = 175,417/987,474 = 18% 1

Foreign tax credit

Foreign income	**Amount**	**Tax paid abroad**	**Average Lesotho**	**Foreign credit**	
	M	**M**	**M**	**M**	
Exports	519,000	103,800	93,420	93,420	1
Interest	37,882	5,682	6,819	5,682	1
Dividends	54,600	12,600	9,828	9,828	1
Shares disposal	313,125	47,625	56,363	47,625	1
				156,555	10

(e) Withholding tax

Tax at 10% should have been withheld from the M60,00 service payment.	2
The tax withheld is payable to the LRA on or before 12 December 2007.	1
	3
	30

3 **Mr Benzen**

(a)

Purchases	**Input (including VAT)**	**Tax rates (%)**	**Input VAT**	**Output (excluding VAT)**	**Output VAT**	
	M		**M**	**M**	**M**	
Sausages	6,900	14	847	7,566	1,059	1
Soft drinks	32,400	14	3,979	32,684	4,576	1
Bread	5,200	0	0	5,980	0	1
Snacks	3,500	14	430	3,531	494	1
Milk	1,420	0	0	1,633	0	1
Tea	3,600	14	442	3,632	508	1
Lentils	5,200	0	0	6,240	0	1
Fruits	1,200	14	147	1,211	170	1
Total			5,845		6,807	

Net VAT payable: 6,807 – 5,845 = M962 1

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(b) The due date on which the VAT return for February 2008 must be filed is 20 March 2008. 1

(c) The applicable additional VAT payable by Mr Benzen in the event that he fails to submit the return on the due date is 3% per month or part of the month the return is outstanding. 1

Marks

(d) The features of a valid VAT invoice are:

- The words 'VAT INVOICE' to appear in a prominent place
- Name, address and tax identification number (TIN) of the supplier
- Name, address and TIN number of the recipient
- Individualised invoice number and date of issue
- Description of goods and/or services supplied
- Quantity or volume of goods or services supplied
- Value of the supply and the total VAT charged.

Any four items at 1 mark each, maximum 4

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4 **Family Care Pharmacy Partnership**

(a) **Notional chargeable income for the year ended 31 March 2008**

	Business Income Lesotho-source M	Business Income Foreign-source M	Property income M	Marks
Trading income (70:30)	560,070	240,030		1
Interest (17,700 x 100/85)			20,824	1
Gross income	560,070	240,030	20,824	
Less: allowable deductions:				
Wages and salaries	122,680	59,720		$1\frac{1}{2}$
Pension fund contribution (150,000 x 15%)	22,500	–	–	$1\frac{1}{2}$
Other expenses (70:30)	161,350	69,150	–	1
	306,530	128,870	–	
Notional chargeable income	**253,540**	**111,160**	**20,824**	
				6

(b) **Chargeable income for the year ended 31 March 2008**

	Goolam M	Mokabi M	Khumalo M	Marks
Salaries	50,000	50,000	excluded – Foreign Source Income	1
Profit share: Lesotho source	84,513	84,514	84,513	1
Foreign source (note)	–	43,995	–	1
Gross income	134,513	178,509	84,513	
Less pension contribution (50,000 x 5%)	–	(2,500)	–	1
Chargeable Income	**134,513**	**176,009**	**84,513**	4

Note: only Mokabi is classed as resident in Lesotho, thus only he is chargeable to tax on his share of the partnership's foreign source income.

(c) **Tax payable for the year ended 31 March 2008**

	Goolam M	Mokabi M	Khumalo M	Marks
35,060 at 25%	8,765	8,765	–	$\frac{1}{2}$
Balance at 35%	34,809	49,332	–	$\frac{1}{2}$
All at 25%	–	–	21,128	$\frac{1}{2}$
	43,574	58,097	21,128	
Less personal credit	3,500	3,500	0	1
	40,074	54,597	21,128	
Less foreign tax credit (W)	0	1,041	0	$\frac{1}{2}$
Net tax payable	**40,074**	**53,556**	**21,128**	

According to the solution M100,000 is paid out of Lesotho source income, and the other M50,000 out of foreign source income. this is correct, but when it comes to calculation of chargeable income, M50,000

Marks

paid out of FSI to a non resident partner (mr Khumalo) is not subject to tax in Lesotho (it is a FSI) and should be excluded.

Alternatively, since the question doesn't clearly specify whether the partners' salaries were paid out of Lesotho source (LSI) or foreign source income (FSI), the assumption that they were all paid out of LSI (70% of total business income) is still correct. This means that they will all be included in the chargeable income, the notional chargeable income, profit share and net tax payable will change as follows:

(a) Notional chargeable income

Business Income	
Lesotho-source	Foreign-source
M	M
203,540	161,160

(b) Chargeable income

Goolam	Mokabi	Khumalo
117,847	176,008	117,847

(c) Net tax payable

Goolam	Mokabi	Khumalo
32,240	53,556	29,461

Working:

		Marks
Average Lesotho tax rate = 54,597/176,009 = 31%		1
Foreign tax credit	M	
Lesotho average tax (6,941*31%)	2,152	$^1/_2$
Foreign tax paid (6,941*15%)	1,041	$^1/_2$
Foreign tax credit	1,041	
		5
		15

5 Mr Mokuru

(a) Chargeable income for the year ended 31 March 2008

	Employment income	Business income	Total	
	M	M	M	
Annual salary	222,000			$^1/_2$
Award (gift from employer)	3,400			1
Overtime pay	6,400			$^1/_2$
Consultancy fees		15,400		$^1/_2$
Dinner (fringe benefit)	0			1
Cell phone reimbursement (employer's expense)	0			1
Gross income	231,800	15,400		
Less allowable deductions				
Course registration	15,000			1
Accommodation and meals (1,300 x 4) (own only)	5,200			1
Fuel to Bloemfontein (personal and employer's expenses)	0			1
Subscription to technical journals	400			1
Stationery, secretarial, petrol and tollgate costs		4,600		1
Laptop depreciation (20%)		2,040		1
Road fines		0		1
Legal fees		0		1
	20,600	6,640		
Chargeable income	**211,200**	**8,760**	**219,960**	$^1/_2$
				13

Marks

(b) To qualify as an exempt benefit, the meal or refreshment must be available to all non-casual employees, and provided in a canteen or dining room operated by or on behalf of the employer. The quarterly dinners satisfy neither of these conditions and thus will not be an exempt fringe benefit. 2

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