

Fundamentals Level – Skills Module

# Taxation (Lesotho)

Monday 2 June 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 M35,060	25%
Over M35,060	35%
Commercial farming income	15%
Personal tax credit	M3,500

### 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. All manufacturing income from exports outside the Southern African Customs Union	0%
4. Other income	25%

### Fourth Schedule (Sections 9 (2), 11, 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**

<b>Group</b>	<b>Depreciation rate</b>	<b>Assets included</b>
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 data 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.
5	100%	Mining

**ALL FIVE questions are compulsory and MUST be attempted**

**1** Mrs Phamotse, a Lesotho resident taxpayer, operates a sole trader business, trading as Lioli General Store in Teyateyaneng, Lesotho. In addition, she is a proprietor of a well established commercial chicken farm which serves the local market with freshly produced eggs and broiler chickens.

Her tax return for the year ended 31 March 2008 included the following information:

	Note	Store M	Farm M	Other M
Trading income		85,100	120,600	
Less: Operating expenses				
Bad debts	1	(3,020)		
Wages and salaries	2	(23,500)	(28,400)	
Finance lease	3		(3,000)	
Other operating expenses	4	(55,380)	(49,300)	
Trading profit		<u>3,200</u>	<u>39,900</u>	
Interest	5			<u>15,600</u>

Notes:

- Bad debts comprise a debt written off during the year of M520 and M2,500 provided for doubtful debts at the year end. Also, during the year M300 which had been written off in the previous year was recovered, however, this has not been accounted for in the books.
- Wages and salaries include an amount of M42,000 paid to Mrs Phamotse as her annual earnings.
- The finance lease relates to equipment which is used to take care of the chicks on the farm. The lease period is five years with effect from 1 April 2004 when the cost of the equipment was M15,000. The annual lease instalments are M3,957, payable in arrears. The rate of interest is 10%.
- The other operating expenses are all tax deductible.
- Interest consists of M3,900 from a Standard Lesotho Bank savings account; M4,500 from a nominated savings account with First National Bank (FNB) in Maseru; and M7,200 from a fixed deposit account with Nedbank Lesotho.
- Mrs Phamotse has a self-provided pension fund into which she contributes M8,000 on an annual basis. The contributions, which are 20% of Mrs Phamotse's basic employment income, are paid entirely out of income from the store.

**Required:**

- Calculate Mrs Phamotse's chargeable income for the year ended 31 March 2008.** (18 marks)
- Calculate Mrs Phamotse's tax payable for the year ended 31 March 2008 and state by when it will be payable.** (3 marks)
- Explain the treatment of trading losses in accordance with the Income Tax Act 1993 (as amended).** (4 marks)

**(25 marks)**

- 2 Maluti Ceramic Tiles (Pty) Ltd, a Lesotho resident company, commenced its operations in February 2004. The main activity of the company is the manufacture of a diverse range of ceramic tiles for both the local and Southern African Customs Union (SACU) market. The company is also engaged in a general retail trade.

The company's trading and other income for the year ended 31 December 2007 was as follows:

	Note	M	US\$
Manufacturing sales: Local		240,600	
Exports	1		69,200
General retail sales		135,300	
Net interest from ABSA (South Africa)		32,200	
Related withholding tax		5,682	
Net interest from Nedbank (Lesotho)		16,800	
Dividends from Zambian subsidiary		42,000	
Related withholding tax		12,600	
Dividends from Lesotho subsidiary		28,400	
Related advanced corporation tax (ACT)		10,603	
Gain from disposal of shares	2		35,400
Related withholding tax			6,350

Notes:

1. Manufacturing sales from exports include 20% withholding tax paid abroad.
2. The gain on the disposal of shares is in respect of shares held in an associated company in Europe.

Additional information:

- (i) The US\$/Maloti exchange rate averaged M7.5 to US\$1 throughout the year.
- (ii) The cost of sales and operating expenses (including those related to general retailing) all of which are tax deductible amounted to M320,400.
- (iii) Prior to the commencement of its operations, the company incurred M56,500 for the acquisition of copyrights. The ascertainable useful life of the copyrights was five years. The whole cost was attributable to the manufacturing income; it has not been included in either cost of sales or operating expenses.
- (iv) On 15 November 2007, the company paid dividends amounting to M180,800 of which 60% was paid out of qualified income.

**Required:**

- (a) Calculate the advance corporation tax (ACT) payable by Maluti Ceramic Tiles (Pty) Ltd in respect of the dividends paid on 15 November 2007 ((iv) above) and state the due date of payment. (3 marks)
- (b) Explain the alternative ways in which Maluti Ceramic Tiles (Pty) Ltd could utilise the ACT. (4 marks)
- (c) Calculate the chargeable income of Maluti Ceramic Tiles (Pty) Ltd for the year ended 31 December 2007. (10 marks)
- (d) Calculate the final corporation tax (CT) payable (if any) by Maluti Ceramic Tiles (Pty) Ltd for the year ended 31 December 2007. (10 marks)

Note: you should assume that the company has not made any instalment payments. (10 marks)

- (e) The operating expenses include a payment for services of M60,000 made to a South African resident contractor on 5 December 2007.

Calculate the withholding tax payable by Maluti Ceramic Tiles (Pty) Ltd in respect of this payment and state the due date of payment. (3 marks)

**(30 marks)**

3 Mr Benzen, a local value added tax (VAT) registered vendor, operates a snack bar in Maseru. He trades as Ben Mini Store. Ben Mini Store's transactions, inclusive of any applicable VAT, during February 2008 were as follows:

	M
Purchases:	
Sausages	6,900
Soft drinks	32,400
Bread	5,200
Snacks	3,500
Milk	1,420
Tea	3,600
Lentils	5,200
Fruits	1,200

All the above purchased items were sold at the end of February 2008, i.e. there was no stock at the end of the month.

Ben Mini Store's gross profit margins during February 2008 were as stated below:

Sausages	25%
Lentils	20%
All other supplies	15%

**Required:**

**(a) Calculate the following for the Ben Mini Store for the month of February 2008:**

- (i) Input VAT;** (4 marks)
- (ii) Output VAT;** (4 marks)
- (iii) Net VAT payable/refundable.** (1 mark)

Note: you should clearly indicate the applicable tax rates for each supply.

**(b) State the due date on which the VAT return for February 2008 should be filed.** (1 mark)

**(c) State the applicable additional tax payable in the event that Mr Benzen fails to submit the VAT return on the due date.** (1 mark)

**(d) State any four features of a valid VAT invoice as set out in Schedule III of the VAT Act 2001.** (4 marks)

**(15 marks)**

4 Family Care Pharmacy, a Lesotho registered resident partnership, has been in operation for the past two years. The partnership owns two pharmacies located in Maseru, Lesotho, and in Ladybrand, South Africa. The partnership's head office is in Maseru. There are three partners, namely, Messieurs Goolam, Mokabi and Khumalo. Messieurs Goolam and Mokabi work at the pharmacy in Maseru, while Mr Khumalo works at the pharmacy in Ladybrand. The partners share the profits/losses of the business equally.

Mr Goolam, who is an Indian by nationality, resides in Ladybrand, South Africa. He commutes every day to Maseru. Mr Mokabi is a citizen of Lesotho and resides in Maseru. Mr Khumalo is a citizen of South Africa and resides in Ladybrand.

The following information was included in the partnership tax return for the year ended 31 March 2008:

	Note	M
Trading income	1	800,100
Interest received (net)	2	17,700
Wages and salaries	3	182,400
Other operating expenses	4	230,500

Notes:

1. Trading income  
70% of the income is from the pharmacy in Maseru. The remaining 30% is from Ladybrand.
2. Interest received  
The partnership uses the Standard Bank in South Africa. Withholding tax at 15% was paid in South Africa.
3. Wages and salaries  
The total wages and salaries figure of M182,400 comprises a M50,000 salary to each partner, and wages and salaries of M32,400 for other staff of the partnership. Wages and salaries of the other staff are apportioned in proportion to the trading income.
4. Other operating costs, all of which are tax allowable, are apportioned in the ratio 70% and 30% between Maseru and Ladybrand, respectively.
5. The partnership has a pension scheme which is a complying superannuation fund into which it contributes 15%, and the partners contribute 5% of their salaries. The partnership's contributions are all paid out of Lesotho-source income. The pension contributions are not included in either the wages and salaries or the other operating expenses stated above.

**Required:**

- (a) **Compute the notional chargeable income of the Family Care Pharmacy for the year ended 31 March 2008.** (6 marks)
- (b) **Compute the chargeable income of each of the partners for the year ended 31 March 2008.** (4 marks)
- (c) **Compute the tax payable by each partner for the year ended 31 March 2008.** (5 marks)

**(15 marks)**

5 Mr Mokuru is employed by the Lesotho Institute of Southern African Studies (LISAS) as a Senior Research Fellow. LISAS is a Lesotho resident organisation which seeks to promote socio-economic developmental research in the Southern African Region.

Mr Mokuru's annual salary is M222,000. The following transactions pertain to him for the year of assessment ended 31 March 2008:

- (1) He attended a one week's course on current trends in developmental research and publications in Cape Town, South Africa. He was accompanied by his wife who was, herself, on a holiday. He incurred M15,000 for the registration fee and M1,300 per person per night for four nights on accommodation and meals.
- (2) He incurred M1,200 for fuel on an official trip to contact one of the research fellows in Bloemfontein, South Africa, travelling 260 kilometres in total. On his way back, he went off road for 20 kilometres to meet a friend who stays in Thaba-Nchu, South Africa, for personal reasons. He has the receipts to substantiate the cost incurred. He has not yet received a reimbursement for the fuel cost from his employer.
- (3) He subscribes M400 on an annual basis for technical journals which he uses as a point of reference in his current employment.
- (4) He won an award valued at M3,400 from his employer for the best performer of the year.
- (5) As a sideline, he performs some personal consultancy services on research projects on a regular basis. He received M15,400 as consultancy fees during the year. The related costs were as follows:

	M
Stationery, secretarial, petrol and tollgate costs	4,600
Laptop which he purchased in April 2007	10,200
Road fines while on research errands	1,500
Legal fees	8,800
	25,100

The legal fees of M8,000 were incurred by Mr Mokuru to defend law suits instigated against him by his clients. They sued him because of his non-performance on consultancy assignments which they had given him.

- (6) On the last day of each quarter, LISAS provides Mr Mokuru and other senior members of the LISAS staff with dinner at Lesotho Sun. M480 was spent per quarter on each member of staff for the year ended March 2008.
- (7) He received overtime pay of M6,400 from his employer.
- (8) His employer reimbursed him M1,500 which he had paid in respect of the use of his cell phone on official duties.

**Required:**

**(a) Calculate the chargeable income for Mr Mokuru for the year ended 31 March 2008.**

Note: your answer should list all the income and expenditure items referred to, indicating by the use of '0' those items which are exempt from tax, excluded from gross income or non-deductible. (13 marks)

**(b) State, giving reasons, whether the quarterly dinner referred to in item 6 will or will not qualify as an exempt fringe benefit.** (2 marks)

**(15 marks)**

**End of Question Paper**