

Fundamentals Level – Skills Module

# Taxation (Lesotho)

Monday 1 June 2009

**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 page 2.

**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%
<b>Commercial farming income</b>	<b>15%</b>
<b>Personal tax credit</b>	<b>M4,500</b>

**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.
5	100%	Mining

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

- 1 Dr Moremi is a Lesotho resident. He is a civil servant working at one of the Government of Lesotho (GoL) hospitals in Maseru. He also trades as an optician. His trade name is City Eyecare Clinic.

His salary from the GoL hospital for the year ended 31 March 2009 was M230,000. His related income tax was M71,141. Dr Moremi has a self-provided superannuation fund. During 2008/09, he contributes 5% of his employment income into it. The contribution has not been taken into account when computing the above mentioned related income tax.

The trading results for his City Eyecare Clinic for the same year reflected the following information:

	Notes	M
Revenue		450,900
Operating expenses		
Rent and rates		24,000
Wages and salaries	1	108,800
Other operating expenses	2	42,600

Notes:

- 1 Wages and salaries paid to the employees included employer's contribution of M17,500 into the employer superannuation fund. Total contribution into the superannuation fund for the year was M25,000. The employer's contribution was 70% while the employees' contribution was 30% of it. Dr Moremi has employed both casual and non-casual employees and the superannuation fund is exclusively for non-casual employees. There are two non-casual employees, namely, Ts'eli, who is a citizen of Lesotho, and John, who is a Zimbabwean resident. Both of them earn equal salary per annum. A total of M11,020 was paid to casual employees whose salaries were all below the tax threshold.
- 2 Other operating expenses include the following expenses:
- (i) Dr Moremi's annual contribution of M12,500 to the Southern African Opticians journal in return for a quarterly professional magazine. The magazine encompasses general issues relating to opticians and their career. The contributions were paid entirely out of the employment income of Dr Moremi.
- (ii) Cost of a wedding present amounting to M1,850, given to Ts'eli, one of the non-casual employees, by City Eyecare Clinic.

**Required:**

- (a) Calculate the income tax payable by Dr Moremi for the year ended 31 March 2009. (10 marks)
- (b) Calculate total income tax to be remitted by Dr Moremi, as an employer and in his agency capacity, to the Lesotho Revenue Authority for the year ended 31 March 2009, and state the due date of payment of the tax. (7 marks)
- (c) Explain to what extent a taxpayer is entitled to deductions incurred in producing employment income. For each category of allowable expenses, state the minimum threshold. (6 marks)
- (d) Explain the circumstances in which the value of a gift received is treated as part of chargeable income. (2 marks)

**(25 marks)**

- 2 Ning Ha Ltd is a Lesotho resident company. It is a subsidiary of a foreign holding company based in China. The core business of Ning Ha Ltd is to manufacture fashion clothing for the local and overseas markets. The company is also engaged in general retailing to serve the local market.

For the year to 31 March 2009, the summarised trading results for the company were as follows:

	Notes	M	US\$
Manufacturing sales: Local	1	95,900	
Exports	2		33,527
Sales from general retailing	3	104,120	
Foreign source dividends	4		6,750
Interest	5	24,900	
Depreciation	6	70,300	
Other operating costs	7	215,100	

Notes:

- Both local manufacturing sales and general retailing sales include value added tax (VAT) at the rate of 14%.
- Exports manufacturing sales are stated net of foreign tax paid of US\$2,915
- Foreign source dividends are from one of the company's subsidiaries based overseas. The amount includes tax paid abroad of US\$675
- Interest included foreign source and Lesotho source elements. 60% of the interest is from Standard Bank in South Africa. It included foreign tax paid of M1,494. The remaining amount of the interest, to which the relevant provisions of the Income Tax Act have not yet been duly applied, is from Lesotho financial institutions.
- Depreciation is all attributable to manufacturing operations. On 1 April 2008, the depreciable assets (all of which related to equipment) had an adjusted cost base (ACB) of M540,500. The ACB included office equipment bought in February 2008 at M20,200.
- Other operating costs, which should be apportioned to Lesotho and foreign business income as appropriate, included the following:
  - Insurance premium of M22,500. 60% of this amount was paid to Lesotho National Insurance Corporation. The balance was paid to Old Mutual Pty, which is a South African company.
  - Management fees of M40,000 (gross) paid to the holding company in China for some of managerial services provided during the year. The management services did not relate to the manufacturing operation.

Additional information:

On 1 September 2008, the company bought industrial buildings and additional office equipment for M160,000 and M70,300, respectively. The company disposed of equipment for M120,000 on 31 October 2008. The adjusted cost base and the market value of the equipment disposed of was M150,100 and M145,790, respectively. The company has elected for the pooling method of depreciation to apply. The industrial buildings and office equipment were the only acquisitions in the year ended 31 March 2008.

On 2 December 2008, the company paid dividends of M2.50 per share on the shares of 9,500 in issue on that date. 65% of the dividends were paid out of qualified income. On the same date, the company redeemed 5,000 shares of the 7,000 shares held by one of its resident shareholders. These shares had originally been issued at M2.00 per share. They were redeemed at M3.00 per share.

The foreign exchange rate averaged M7.50 to US\$1 throughout the year.

**Required:**

- (a) Calculate the advance corporation tax (ACT) payable by Ning Ha Ltd for the year ended 31 March 2009 and state the due date for payment of the ACT. (6 marks)
- (b) Calculate corporation tax (CT) payable by Ning Ha Ltd for the year ended 31 March 2009 and state the due date for payment of the CT. (23 marks)
- (c) In respect of the management fees paid, calculate the withholding tax that should have been withheld at source by Ning Ha Ltd. (1 mark)

**(30 marks)**

- 3** Mohokare Household Furnitures Pty has been in operation for a number of years without registration for value added tax (VAT), due to low turnover. It is a Lesotho resident company. However, following expansion of its operations, the annual turnover increased beyond the registration threshold and the company was compelled to register for VAT. The registration took place on 1 February 2009.

The company is situated near the Maseru border post and serves both the local and South African customers.

The following relate to the company's transactions (inclusive of 14% VAT where appropriate) for the month of February 2009:

	Notes	M	M
Sales	1		83,040
Less cost of sales			
Opening stock	2	72,900	
Purchases		25,500	
		<u>98,400</u>	
Less closing stock		(46,500)	(51,900)
			<u>31,140</u>
Gross profit			31,140
Less operating expenses			
Rent	3	5,500	
Insurance		2,200	
Wages and salaries		4,600	
Bank charges		120	
General expenses		3,800	
Depreciation	4	2,500	
Bad debts	5	3,500	
		<u>3,500</u>	(22,220)
Net profit			<u>8,920</u>

Notes:

- 20% of sales relates to stock sold to South African customers
- The figure for opening stock relates to stock purchased in different months as tabulated below:

	M
October 2008	3,645
November 2008	10,935
December 2008	21,870
January 2009	36,450
	<u>72,900</u>

- Rent is payable to ZKH Holdings Pty, a local vendor.
- Depreciation relates to one of the company's cars which was acquired at the beginning of February 2009 for M120,000.
- One of the company's customers (a local vendor) who bought stock on credit in December 2008 was declared insolvent. This was confirmed beyond reasonable doubt by the administrator of the customer's estate. The estate administrator informed the company that some of the customer's debts, including the one written off above, cannot be recovered.

**Required:**

- (a) Calculate VAT payable by/refundable to Mohokare Household Furnitures Pty for the month of February 2009. Your answer should clearly show the VAT for each taxable supply and the total input or output VAT. You should assume that Mohokare Household Furnitures Pty met all the necessary conditions to qualify for any allowable pre-registration input VAT. (9 marks)
- (b) Explain the VAT treatment of the bad debts incurred. (4 marks)
- (c) Explain the VAT treatment in the event the vendor subsequently recovers wholly or partly the amount of bad debts written off in respect of which credit had been allowed. (2 marks)

**(15 marks)**

4 You are given three independent scenarios for different taxpayers as set out below:

(a) Mohapi Investments (Pty) Ltd is a resident company which is engaged in renting out its premises to commercial enterprises. On 1 April 2008, one of the company's premises with adjusted cost base of M160,800 was destroyed by fire due to an electrical fault. On 1 July 2008, the company received insurance compensation amounting to M180,900. The company used M175,200 of the insurance compensation to reconstruct similar premises. The reconstruction work was completed in January 2009. (5 marks)

(b) Bataung Investment Holdings (Pty) Ltd is a resident company engaged in buying and selling of land and buildings. In May 2008, the company sold some of its land for M75,800. The land had originally been acquired for M40,400 in September 2004. (4 marks)

(c) Mr Majara is a resident of Lesotho. He owns premises which had cost him M150,000 to construct in December 1999. The premises have been rented out to Lesotho Garments Manufactures since May 2000. In March 2008, the premises were extended at a cost of M45,000 and the extended portion was readily available for use by Lesotho Garments Manufactures at an extra rent on 1 September 2008.

On 1 November 2008, Mr Majara sold the premises for M370,000. He intends to re-invest the sale proceeds in shares with one of the South African companies listed on the Johannesburg Stock Exchange (JSE). (6 marks)

The relevant indexation numbers are as follows:

December 1999	140
September 2004	240
March 2008	270
April 2008	280
May 2008	290
November 2008	295
January 2009	295

**Required:**

**In each scenario, explain the tax treatment and calculate any chargeable gains or losses for the year ended 31 March 2009.**

**(15 marks)**



- 5 (a) State the factors that are used to determine whether an individual is a resident of Lesotho for the entire year of assessment. (5 marks)
- (b) State how the issue of tax residence for individuals is dealt with in the years of arrival in and departure from Lesotho. Your answer should make reference to resident rules for the first and the last year of an individual's residence in Lesotho. (4 marks)

- (c) Mr William Nguru owns a boutique shop in Maseru. The boutique has been in operation for the past five years. He, however, is a national of South Africa and lives in Ladybrand, South Africa, with his entire family. He commutes everyday between Ladybrand and Maseru to run his business. Mr Nguru has a superannuation fund into which he contributes 10% of his business income per month.

His Lesotho self assessment tax return for the year ended 31 March 2009 disclosed chargeable income of M65,900, after deduction of, among other things, M7,500 for contributions to the superannuation fund.

**Required:**

- (i) Explain the basis on which Mr Nguru will be taxed in Lesotho. (4 marks)
- (ii) Calculate his tax payable for the year ended 31 March 2009. (2 marks)

**(15 marks)**

**End of Question Paper**