Answers

Note: All references to legislation shown in square brackets are for information only and do not form part of the answer expected from candidates.

Marks

1 Mr Lesedi

(a) Tax payable for the year ended 31 March 2010

	M	M	Marks
Employment income:			
Basic salary	420,000		½
Housing allowance	42,000		1
Wedding present	12,500		1
Less superannuation fund contributions	(21,000)		1
		453,500	
Income from other sources:			
Consultancy services	35,600		½
Less expenses:			
Depreciation on laptop (8,500*20%*$^{7}/_{12}$)	(992)		1
Stationery and secretarial costs	(3,900)		½
		30,708	
Lectureship ((2,104 x 12) x 100/65)		38,843	1½
Sitting allowance		7,500	½
Chargeable income		530,551	
Tax payable:			
40,368*22%		8,881	
490,185*35%		171,564	
		180,445	1
Less withholding tax:			
PAYE (W1)	136,752		½
Lectureship (38,843 x 35%)	13,596		1
		(150,347)	
Net tax payable		30,098	

Working 1: PAYE

		Marks
Basic salary	420,000	
Tax payable: (40,368*22%)	8,881	
(379,632*35%)	132,871	
	141,752	1
Less personal tax credit	(5,000)	1
	136,752	12

(b) The costs reimbursed to Mr Lesedi constitute a tax deductible expense, which would otherwise be allowable to ABC. However, in this case only the 40% which relates to business travel, will be reimbursed and allowable. ½ 1

The remaining 60% is of personal nature and therefore disallowed for ABC. 1

There are no tax implications for Mr Lesedi. ½

3

(c) If the car expenses were not reimbursed, they would be allowed against employment income of Mr Lesedi [Income Tax Regulations 1994]. 1

Likewise, only the 40% which relates to business travel would be allowable. ½

There would be no tax implications for ABC. ½

2

		Marks

(d) (i) Withholding tax agents must maintain and keep records for each year of assessment, showing payments made to each payee and tax withheld from those payments for inspection by the Commissioner. 1

Within 28 days after the end of a year of assessment, they must file with the Commissioner details of:

- the name and address of each payee; 1
- the amounts paid or payable to such persons; 1
- the amounts of tax withheld; and 1
- any other information as the Commissioner may require. 1

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(ii) The withholding tax agent will be liable for additional tax which will be calculated at a specified rate, and will be imposed on the amount of tax not remitted. 2

This is charged for the period from the due date of payment of the tax until the date the tax is paid by the withholding tax agent. 1

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2 Cameo Shoe Industry (CSI)

(a) Advance corporation tax (ACT) payable:

Dividends paid	15,000	
Less paid out of qualified income (80%)	(12,000)	½
	3,000	
ACT payable (3,000*25/75)	1,000	½
The ACT is payable on or before 8 June 2010		1
		2

(b) Tax payable for the year ended 30 September 2010

	Business income	Property income	
Trading income: Local	230,100		½
Exports	640,300		½
Interest: Foreign (54,975 + 22,300)		77,275	1
Local (47,900 x 10/9)		53,222	1
Gain from disposal of shares (19,500 + 6,500)		26,000	1
Foreign dividends (30,900 + 11,600)		42,500	1
Gross income	870,400	198,997	
Less allowable deductions:			
Operating expenses (W1)	(600,316)	0	
Chargeable income	270,084	198,997	
Tax payable			
Manufacturing income at 10%		27,008	1
Non manufacturing income at 25%		49,749	1
		76,757	
Less: foreign tax credit (W4)		(55,339)	
Local withholding tax		(5,322)	1
ACT		(1,000)	1
Net tax payable		15,096	
Due date is on or before 31 December 2010			1

			Marks
Working 1:			
Operating expenses		M	
Total cost incurred		660,700	
Less disallowed expenses:	M		
10% straight line depreciation	82,725		1
Annuity payment (12,500 – 1,200)	11,300		1
Penalty for PAYE	2,200		1
Cost of extension	60,500		1
		(156,725)	
		503,975	
Add tax deductible expenses:			
Depreciation allowance (W2)	63,926		
Fringe benefit tax (W3)	32,415		
		96,341	
		600,316	

Working 2:

Depreciation allowance	M	
Factory buildings – old		
1 October 2009 Adjusted cost base (ACB)	220,000	
Depreciation at 5% rate	(11,000)	1
ACB	209,000	
Factory building – extension		
1 July 2010 ACB	60,500	
Depreciation (60,500*5%*3/12)	(756)	1
	59,744	
Plant and equipment		
Opening balance	190,500	
add 50% current year acquisitions	40,250	1
add 50% previous year acquisitions	30,100	1
Less disposals	0	1
	260,850	
Depreciation allowance 20%	52,170	1
Total depreciation (11,000 + 756 + 52,170)	63,926	

Tutorial note: Factory buildings are not eligible for pooling method regardless of whether the taxpayer has elected for this method to apply, hence single asset method has been used in this regard.

Working 3:

Fringe benefit tax (60,200/0·65*35%)	32,415	1

Working 4:

Foreign tax credit

Average Lesotho tax rate 76,757/469,081 = 16% 1

Foreign income	Amount	Foreign tax paid	Lesotho tax	Credit available	
Exports	640,300	32,015	102,448	32,015	1
Interest	77,275	22,300	12,364	12,364	1
Shares	26,000	6,500	4,160	4,160	1
Dividends	42,500	11,600	6,800	6,800	1
		72,415	125,772	55,339	26

(c) The royalty fees paid constitutes Lesotho source income payable to a non-residence in respect of technology used in the production of manufacturing income. It is therefore subject to withholding tax at a concessional rate of 10%. 2

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Marks

3 **Mookoli Motors Pty**

(a) (1)	Income from the sale of unimproved land is an exempt supply, therefore there is no output VAT.		1
(2)	Rental income in respect of M85,450 from manufacturing tenants is an exempt supply.		1
	Output VAT (51,270 + 34,180)*14/114	M10,494	1
(3)	Since the car was purchased from a non-vendor, there is no input VAT with respect to the cost of M65,500.		1
	Input VAT (5,900*14/114)	M725	1
		M	
	Sale price	80,200	1
	Less: Purchase cost	(65,500)	1
	Taxable value	14,700	
	Output VAT (14,700*14/114)	M1,805	1
	The taxable value in respect of the car mirror is the fair market price. Output VAT (5,500*14/114)	M675	1
(4)	Input VAT (120,900*14/114)	M14,847	1
			10

(b) Due date for filing the VAT return for the month of November 2010 is on or before 20 December 2010. 1

(c) The additional VAT will be 3% per month or part of the month that the VAT return is outstanding. 1

(d) Broadly, the time of supply is the date on which the:

– goods are delivered or made available ½
– performance of the services is completed ½
– invoice for the supply is issued ½
– payment for the supply is received ½

It must be noted that the deemed time of supply is the earliest of the above. 1

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4 **Makeloane Properties**

(a) **Inherited land:**
This is a sale of immovable property held by the taxpayer for a period of more than 12 months. The adjusted cost base (ACB) should be indexed for inflation during the period of ownership. However, the indexation of ACB does not apply in calculating a capital loss on disposal of an interest in immovable property. 2

Site from business associate:
This is considered to be a non-arms length transaction. The adjusted cost base is the fair market value of the asset at the date of acquisition. 2

Residential buildings
This is a sale of immovable property held by the taxpayer for a period of less than 12 months. The ACB should not be indexed for inflation. Rather the cost base should include the cost of acquiring and improving the asset. 3

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		M	M	Marks
(b)	**Chargeable income**	M	M	
	Inherited land:			
	Sale price	62,300		½
	ACB (30,500*332/110)	(92,055)		1½
	Nominal loss		(29,755)*	
	Site from business associate:			
	Sale price	1,600,000		½
	ACB	(700,000)		1
	Chargeable gain		900,000	
	Rentals (5,000*2)		10,000	1
	Residential buildings:			
	Sale price	120,900		½
	ACB (90,500 + 32,000)	(122,500)		2
	Allowable loss		(1,600)	
	Chargeable income		908,400	1
				8
				15

*Note: the loss arising from the sale of inherent land cannot be recognised for tax purposes because indexation method does not apply in calculating capital loss on disposal of an interest in immovable property.

5 Lesotho College of Education and Ms Lesoetsa

(a) Fringe benefits tax per quarter of the year ending 31 March 2010

	M	
Housing fringe benefit (5,600 – 280)*3)	15,960	2
Car fringe benefit (320,000*15%*1/4)	12,000	1
Utilities fringe benefits (3,500*3)	10,500	1
Domestic servants (2,500 + 2,500 – 1,500)*3	10,500	3
Excessive superannuation fund fringe benefit (W1)	890	
Total taxable values	49,850	
Taxable amount (49,850/·65)	76,692	1
Fringe benefit tax (76,692*35%)	26,842	1
Working 1:		
Employment income:		
Basic salary	350,800	1
Education allowance	6,400	1
	357,200	
Maximum allowable contributions (357,200*20%)	71,440	½
Contributions by employee	(25,000)	
Maximum contributions allowable to employer	46,440	
Excess contribution (50,000 – 46,440)	3,560	½
Excess superannuation fund contribution fringe benefit: (3,560*1/4)	890	1
		13

(b) The excess contribution of M3,560 would be regarded as a disallowed deduction to LCE instead of being subject to fringe benefit tax. 2

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