

Fundamentals Level – Skills Module

Taxation (Lesotho)

Monday 6 December 2010

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 3–4.

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

ACCA



Paper F6 (LSO)

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The question paper begins on page 3.

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 M40,368	22%
Over M40,368	35%
Personal tax credit	M5,000

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%
4. Commercial farming income	15%

Fourth Schedule

(Sections 109, and 116)

Tax rate for trustees, 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

Value added tax (VAT)

Standard rate	14%
Electricity, telephone, water and sewerage rate	5%
Basic foods and agricultural inputs	0%

ALL FIVE questions are compulsory and MUST be attempted

- 1** Mr Lesedi, a Lesotho resident, is employed by ABC as a Corporate Services Director. In addition, he has other sources of income from different activities, which he undertakes.

The following pertains to the payments and benefits received by Mr Lesedi from all different sources of income for the year to 31 March 2010.

A. Employment

- (i) Annual basic gross salary amounting to M420,000. The respective monthly pay as you earn (PAYE) was duly remitted to the Lesotho Revenue Authority (LRA). Mr Lesedi has a self-provided resident superannuation fund, which is paid entirely out of the basic salary. During the year to 31 March 2010, he contributed 5% of the basic salary to the fund. The contributions were not taken into account when calculating the PAYE already remitted to the LRA.
- (ii) Housing allowance of 10% of the basic salary.
- (iii) A wedding present from the employer amounting to M12,500.
- (iv) At times, he uses his private car for business related matters and claims the costs incurred from the company. The company reimburses the costs claimed based on the number of kilometres (km) travelled for business purposes. During the year to 31 March 2010, he travelled 1,500 kilometres (km) in total. 60% of this travel was for private purposes. The total car expenses incurred amounted to M15,500, of which ABC reimbursed M6,200.

B. Other sources

- (i) Consultancy

He received a total of M35,600 in respect of consultancy services he provided during the year. Related costs included the following:

- Purchase of a new laptop amounting to M8,500 on 1 September 2009. The laptop was entirely for the purposes of carrying out consultancy services.
- Stationery and secretarial costs amounting to M3,900.

- (ii) Lectureship

Mr Lesedi is a part-time lecturer at one of the local universities. He earns a monthly income of M2,104, which is after a deduction of withholding tax at the rate of 35%.

- (iii) Sitting allowance

Mr Lesedi is one of the board members of LNIC, a resident company. He received a total of M7,500 during the year as sitting allowance. No withholding tax was deducted.

Required:

- (a) **Calculate the tax payable by Mr Lesedi for the year ended 31 March 2010.** (12 marks)
- (b) **Explain the tax treatment in respect of the car expenses reimbursed (item A (iv)) above for ABC and Mr Lesedi.** (3 marks)
- (c) **Explain how your answer in (b) above would differ if the car expenses incurred were not reimbursed.** (2 marks)
- (d) (i) **Outline the obligations of a withholding tax agent with respect to recording of payments made and remitting the tax withheld in accordance with the Income Tax Act;** (5 marks)
 - (ii) **Explain how the additional tax payable will be calculated for a withholding tax agent who fails to remit the tax withheld to the Commissioner within the time prescribed in the regulations.** (3 marks)

(25 marks)

- 2 Cameo Shoe Industry (CSI) is a Lesotho company engaged in the manufacture of leather shoes for both local and overseas markets. During the year to 30 September 2010, the CSI's trading results were summarised as follows:

	M
Trading income: Local	230,100
Exports	640,300
Other income:	
Net interest from foreign financial institutions	54,975
Related withholding tax	22,300
Net interest from local institutions	47,900
Net gain from disposal of shares	19,500
Related withholding tax	6,500
Net foreign dividends received	30,900
Related withholding tax	11,600
Operating expenses	660,700

Additional information:

- Trading income from exports includes 5% withholding tax paid abroad.
- CSI paid dividends amounting to M15,000 on 1 June 2010. 80% of the dividends were paid out of qualified income.
- Operating expenses, which are all attributable to manufacturing operations, include the following:
 - Depreciation in respect of all CSI's assets amounting to M82,725. The depreciation was calculated on a straight-line basis at the rate of 10% on all the assets.
 - Payment to a former employee who was badly injured whilst on duty. CSI had been summoned to pay M12,500 per annum as the accident was due to its negligence.
 - Finance charges which comprise interest on loan of M35,400, the loan being used to acquire new equipment; and penalty charges of M2,200 for late payment of pay as you earn (PAYE).
 - Repairs and maintenance of M80,600. During the year, one of the company's factory buildings was severely damaged by a storm. The said building was reconstructed and CSI decided to extend it further for additional cost of M60,500. This figure is included in repairs and maintenance. The extended building was ready for use on 1 July 2010.
 - Royalty fees of M30,800 payable to a South African company in respect of specialised technology used in the production process.
- The taxable value of fringe benefits provided by the company to its employees during the year amounted to M60,200. The relevant fringe benefit tax was duly remitted to the LRA. However, there is no record of such in the books of the company.
- The following information relates to CSI's fixed assets:

(i) Assets	Adjusted cost base (ACB) on 1 October 2009
	M
Factory buildings	220,000
Plant and equipment	190,500

- (ii) Acquisitions for year ended:

	30 September 2009	30 September 2010
	M	M
Factory buildings	nil	nil
Plant and equipment	60,200	80,500

- (iii) No disposals were made during the year.

- (iv) The company has elected for the pooling method to apply in calculating depreciation for tax purposes.

Required:

- (a) Calculate the advance corporation tax (ACT) in respect of dividends paid by Cameo Shoe Industry (CSI) on 1 June 2010 and state the due date for payment. (2 marks)
- (b) Calculate the corporation tax payable by Cameo Shoe Industry (CSI) for the year ended 30 September 2010 and state the due date for payment. (26 marks)
- (c) Explain the tax treatment of the royalty fees in note 3(v) above. (2 marks)

(30 marks)

- 3** Mookoli Motors Pty is a Lesotho resident company and a local vendor engaged in buying and selling of new and used cars, together with spare parts to the local community. In addition, the company owns premises which are sub-let for both residential and commercial purposes.

The following relates to the company's value added tax (VAT) related transactions for the month of November 2010. All figures are inclusive of VAT where appropriate.

- (1) Sold a piece of unimproved land to Mokake Investment Holdings, a local vendor. The consideration was M75,600 and the market value of the land was M70,000.
- (2) Received monthly rental income of M170,900, comprising:

	M
Manufacturing tenants who qualify for 10% income tax rate	85,450
Non-manufacturing tenants	51,270
Residential tenants.	34,180

- (3) Received total sales revenue of M85,700, comprising the following:
- A second hand car whose sale price was M80,200. The car was originally purchased by Mookoli Motors Pty from a non-vendor for M65,500. The company replaced some of the parts of the car at a total cost of M5,900, paid to BMI Car Dealers Pty, a local vendor.
 - A car mirror sold to one of the business associates. The fair market value of the mirror amounted to M5,500.
- (4) Purchased two new desktop computers to replace the old ones. The total cost of M120,900, which included M12,500 for configuring the systems, was paid to Maseru Business Solutions, a local vendor.

Required:

- (a) **Explain the VAT treatment and calculate the input and output VAT in respect of each of the above transactions. You should provide a brief explanation for any amounts excluded from your calculations.** (10 marks)
- (b) **State the due date on which the VAT return for November 2010 should be filed.** (1 mark)
- (c) **State the additional VAT that could be payable if Mookoli Motors Pty failed to submit the VAT return on the due date.** (1 mark)
- (d) The time of supply for goods or services determines when the liability to VAT arises, and there are a number of rules for determining the date on which the supply of goods or services is deemed to have taken place.

State the general rule for determining the time of supply for goods or services.

Note: you can ignore the special circumstances not covered by the general rule. (3 marks)

(15 marks)

- 4 You have been provided with the following information in relation to Mr Makeloane, a resident individual, trading as Makeloane Properties.

Mr Makeloane inherited a piece of land from his late grandfather in December 1994. The land had been used for farming purposes until it was sold to one of the local farmers for M62,300 in June 2009. The adjusted cost base (ACB) and the market value at the date of acquisition amounted to M30,500 and M12,300, respectively.

Mr Makeloane acquired a site in October 1995 from one of his business associates at a reduced price of M550,000. The market value at the date of acquisition amounted to M700,000. The site consisted of the building premises which were originally used by the owner as a supermarket. Mr Makeloane sub-let the premises to a resident company, at a monthly rent of M5,000 with effect from 1 November 1995. However, on 31 May 2009, Mr Makeloane sold the site for M1,600,000.

Mr Makeloane disposed of residential buildings in July 2009 for M120,900. The buildings were acquired by him in October 2008 at a market value of M90,500. Mr Makeloane incurred costs of M32,000 in renovating the buildings.

Below are the dates for the prevailing consumer price indices:

December 1994	110
October 1995	180
November 1995	185
October 2008	300
May 2009	330
June 2009	332
July 2009	335

Required:

(a) Explain how the cost base of the assets is determined in each of the above transactions. (7 marks)

(b) Calculate the chargeable income for Mr Makeloane for the year ended 31 March 2010. (8 marks)

(15 marks)

- 5** Ms Lesoetsa, a resident individual, is employed as a Director of Lesotho College of Education (LCE), a tax exempt employer. During the year to 31 March 2010, she received the following payments and benefits from her employer:
- (1) A basic annual salary of M350,800.
 - (2) A fully furnished house. The fair market rent for the house amounts to M5,600 per month. Ms Lesoetsa pays a monthly rent of M280 to LCE in respect of the benefit. This amount is normally deducted from her salary.
 - (3) A motor vehicle which was valued at M320,000 when it was first provided to her in February 2008. The current market value of the car is M280,500. LCE pays for the running and maintenance costs of the car. A total of M3,800 was paid for the year.
 - (4) Provision of a chauffeur on behalf of Ms Lesoetsa, as she cannot drive for herself. M2,500 is payable by LCE as monthly salary for the chauffeur.
 - (5) Reimbursements to the maximum of M4,000 per month for electricity, water and sewerage consumption, based on substantiating receipts. Ms Lesoetsa submitted receipts amounting to a total of M3,500 per month.
 - (6) Provision of M2,500 per month which is directly payable by LCE to Ms Lesoetsa's domestic servants. The amount includes M1,500 for her security guard.
 - (7) Approved employer superannuation fund contributions for the year amounting to M75,000. Ms Lesoetsa contributed M25,000, while LCE contributed M50,000 on her behalf.
 - (8) Education allowance of M6,400 per annum in respect of her two children.

Required:

(a) Calculate the quarterly fringe benefit tax payable by the Lesotho College of Education in respect of the benefits provided to Ms Lesoetsa for the year ended 31 March 2010. (13 marks)

(b) Explain how the tax treatment in respect of item (7) above would differ if LCE was a taxable employer. (2 marks)

(15 marks)

End of Question Paper