Answers

Marks

1 Mojalefa Kase

(a) Tax payable by Mojalefa Kase for the year ended 31 March 2011

	Business income	Property		
	M			
Trading income	220,600			½
Dividends		17,400		1
Gross income	220,600	17,400		
Less operating expenses:				
Wages and salaries	66,180			½
Interest: (see workings)				
Finance lease	1,061			½
Hire purchase	1,127			½
Depreciation: (see workings)				
Finance lease	11,200			½
Hire purchase	5,355			½
Trading loss brought forward	7,500			1
Other operating expenses				
(30,920 – (18,500 * 40%))	23,520			1
	115,943	0		
Chargeable income	104,657	17,400	122,057	
Tax payable:				
M40,368 * 22%			8,881	½
Over M40,368 * 35%			22,501	½
			31,382	
Less personal tax credit			(5,000)	1
Tax payable			26,382	
Less foreign tax credit			(2,200)	1
Net tax payable			24,182	
Due date: 30 June 2011				1

Workings:

1. Finance lease interest calculation

Year	Opening Balance (A)	Lease rentals (B)	Interest ((A – B) * 5%)	Closing balance	
	M	M	M	M	
2009/10	70,000	25,500	2,225	46,725	1
2010/11	46,725	25,500	1,061	22,286	1
2011/12	22,286	22,286	–	–	1

2. Finance lease depreciation calculation

Year	Opening balance	Depreciation 20%	Closing balance	
	M	M	M	
2009/10	70,000	14,000	56,000	1
2010/11	56,000	11,200	44,800	1

3. Hire purchase interest calculation

	M	
Deposit	13,770	1
Instalments (1,500 * 24)	36,000	1
Hire purchase price	49,770	
Less: cash price	(45,900)	1
Hire purchase interest	3,870	1
Interest per month (3,870/24)	161	
Tax deductible interest (161 * 7)	1,127	1

		Marks
4. Hire purchase depreciation calculation		
1 September 2010 cost	45,900	
Depreciation 7/12*20%	5,355	1
		21

(b) Treatment of losses carried forward

(i) Business losses

A business loss may not be deducted against any other income of a taxpayer, but shall be carried forward and deducted against business income in subsequent years of assessment. 1

(ii) Property loss

A property loss may not be deducted against any other income of a taxpayer, but shall be carried forward and deducted in determining chargeable property income in subsequent years of assessment. 1

(iii) Manufacturing loss

A manufacturing loss may not be deducted against any other income of a resident company, but shall be carried forward and deducted against manufacturing income in subsequent years of assessment. 1

(iv) A foreign source loss may only be offset against foreign source income. 1

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2 Corporation tax for Alutah Garments (Pty) Ltd

(a) The pooling method may be applied to assets which are wholly used in production of income subject to tax. 1

It applies to all assets acquired during the year and subsequent year(s) of assessment for which election is made with the exception of group four assets. 2

3

(b) Depreciation allowance claimable by Alutah Garments (Pty) Ltd for the year ended 28 February 2011

		M	
Industrial buildings:			
1 March 2010	ACB	340,200	
Depreciation (5%)		17,010	1
		323,190	
Industrial building – extension:			
1 October 2010		90,900	
Depreciation (5% * 5/12)		1,894	1
Equipment:			
1 March 2010	ACB	350,700	
+ ½ previous year acquisition		20,115	1
+ ½ current year acquisition		30,350	1
		401,165	
Disposal proceeds		(400,765)	1
		400*	1
			6

*Note: Closing balance of M400 will be allowed as a deduction because it is less than M500.

Total depreciation (17,010 + 1,894 + 400) 19,304

Marks

(c) Tax payable by Alutah Garments for the year ended 28 February 2011

	Business income: Manufacturing	Business income: Other	Property income	Marks
	M	M	M	
Income: Local	170,400			
Exports	230,600			1
Rentals		120,000		1
Dividends: foreign source			39,300	1
Lesotho source (exempt)			0	1
Interest: Lesotho source			35,600	1
Gross income	401,000	120,000	74,900	
Less allowable expenses:				
Depreciation (see workings)	19,304	0		1
Other expenses (see workings)	257,410	73,290		1
	(276,714)	(73,290)	0	
Chargeable income	124,286	46,710	74,900	

		Marks
Tax payable:		
Manufacturing income at 10%	12,429	1
Non-manufacturing income at 25%	30,403	1
	42,832	
Less: Foreign tax credit (see workings)	(17,281)	
Final tax payable	25,551	

Due date: on or before 31 May 2011 1

Workings:

1. Other expenses: amount to be apportioned: 330,700 – 12,500 = 318,200

	Manufacturing Income	Other Income	
Apportionment:	$\frac{401,000 * 318,200}{521,000}$	$\frac{120,000 * 318,200}{521,000}$	
	244,910	73,290	1

Total manufacturing operating expenses (244,910 + 12,500) 257,410 1

2. Average Lesotho tax credit = 42,832/245,896 = 17% 1

3. Foreign tax credit

Foreign Income	Amount	Tax paid abroad	Average Lesotho	Foreign credit	
	M	M	M	M	
Exports	230,600	10,600	39,202	10,600	1
Dividends	39,300	7,500	6,681	6,681	1
				17,281	
					15

(d) Income tax instalments payable by Alutah Garments (Pty) Ltd for the year ending 28 February 2011

		Marks
Each instalment of tax payable (25,551 * 30%)	M7,665	1½
The instalments are payable on:		
31 August 2011		½
30 November 2011		½
28 February 2011		½
		3

			Marks
(e) (i)	Cleaning services fees are payable to a resident contractor and in excess of M3,000.		
	Withholding tax payable (25,500 * 5%)	M1,275	1½
(ii)	Lease rentals constitute Lesotho source service contract made to a non-resident		
	Withholding tax (12,500 * 10%)	M1,250	1½
			3
			30

3 Value added tax (VAT)

(a) VAT is paid as part of the purchase price of goods or services and thus is paid to the supplier rather than directly to the government, except in the case of imports. 2

(b) Except as otherwise provided, a place where supply takes place is:

Goods: where the goods are delivered or made available, or if this involves transportation, a place where the goods are when the transportation commences. 1

Services: the place of business from where the services are supplied. 1

Importance: unless the place of supply is in Lesotho, no Lesotho VAT is due 1

3

(c) A vendor may apply for cancellation of registration if any of the following prevails:

(i) Value of taxable supplies falls below the registration limit of M500,000 per annum, provided that the taxpayer/vendor was registered for at least a period of two years.
(ii) If a business ceases trading permanently (and will not carry on any enterprise within 12 months after that date).
(iii) If a business is sold and the owner does not have any enterprise which requires VAT registration.
(iv) There is a change in the legal status of an entity.
(v) An entity has applied for registration in anticipation of commencing and has not commenced that enterprise.

1 mark each, maximum 3

(d) Billy Meat Market (Pty) Ltd: VAT payable or refundable for the month of March 2011

		M	Marks
(i)	Input VAT:		
	Two cows (no input VAT as they are from non-vendor)	0	1
	Mini truck (140,000 * 14/114)	17,193	1
	Other expenses (12,000 * 14/114)	1,474	1
		18,667	3
(ii)	Output VAT:	M	
	Local sales ((31,300 + 3,500) * 14/114)	4,274	2
	Export sales (Zero rated)	0	1
		4,274	3
(iii)	VAT refundable (18,667 – 4,274)	14,393	1
			15

Marks

4 KKZ Partnership

(a) Notional chargeable income for the year ended 31 March 2011

	Lesotho source M	Foreign source M	
Revenue: Trading income	250,400		½
Property		42,700	1
Less: expenses:			
Wages and salaries	85,900		1
Pension (12% * 85,900)	10,308		2
Interest on capital	2,500		1
Other expenses	32,300		½
	(131,008)	–	
Notional chargeable income	119,392	42,700	6

(b) Chargeable income of each partner for the year ended 31 March 2011

	Resident Phala M	Resident non resident Mike M	
Distributive share:			
Lesotho source (119,392/2)	59,696	59,696	½
Foreign source (42,700/2)	21,350	–	2
Salaries	42,950	42,950	1
Interest on capital	1,250	1,250	½
Gross income	125,246	103,896	
Less: Pension (8% * 42,950)	(3,436)	–	2
Chargeable income	121,810	103,896	
Tax payable: 40,368 * 22%	8,881	8,881	½
Excess over 40,368 * 35%	28,505	22,235	½
	37,386	31,116	
Less: personal tax credit	(5,000)	(5,000)	1
Tax payable	32,386	26,116	
Less: foreign tax credit (2,700/2)	(1,350)	–	1
Net tax payable	31,036	26,116	9
			15

5 Caledon Insurance Company (Pty) Ltd

(i) A resident company which pays a dividend is liable to pay advance corporation tax (ACT) within seven days of the payment of such dividends. ½

A gain on redemption of the shares which is not pro-rata is treated as dividends and subject to ACT. The tax payable is calculated as follows: ½

	M	
Dividends paid (30,000 * 0·5)	15,000	1
Deemed dividends (Working)	26,250	2
	41,250	
Related ACT (41,250 * 25/75)	13,750	1
		5

Working: Deemed dividends

Redemption price	(7,500 * 6·5)	48,750
Issue price	(7,500 * 3)	(22,500)
		26,250

			Marks
(ii)	This is a taxable fringe benefit. The fringe benefit tax (FBT) is an allowable deduction to the employer.		1
		M	
	FBT payable (40,000 * 2/3 * 14%)/0·65 * 35%	2,010	2
			3
(iii)	Provision of medical aid to all employees on equal terms constitutes an exempt fringe benefit. It is an allowable deduction to the employer.		2
(iv)	The housing allowance constitutes additional taxable income to the Managing Director.		1
		M	
	Additional tax payable (18,000 * 35%)	6,300	1
			2
	The cellphone usage bill is a utility fringe benefit taxable in the hands of Caledon Insurance Company. The FBT is an allowable deduction.		1
		M	
	FBT payable (8,460/0·65 * 35%)	4,555	2
			3
			15