Fundamentals Level – Skills Module

Taxation (Lesotho)

Monday 6 June 2011

Paper F6 (LSO)

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

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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	10%

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 Mojalefa Kase is a Lesotho resident individual providing car wash and valet services in Maseru. Mojalefa has not employed a qualified accountant. The following are his trading results for the year ended 31 March 2011:

	Note	M
Trading income		220,600
Other income: Dividends	1	15,200
Expenses:		
Wages and salaries		66,180
Finance lease payments	2	25,500
Hire purchase instalments	3	18,000
Trading loss	4	7,500
Miscellaneous expenses	5	30,920

Notes:

1. Income from dividends is a foreign source income stated after deduction of foreign source tax paid amounting to M2,200.
2. Finance lease payments are in respect of equipment which is used in the business. Mojalefa entered into a three-year lease contract on 1 April 2009. A fair market value of the equipment was M70,000 and the annual lease payments amount to M25,500, payable in advance. The rate of interest is 5%.
3. Hire purchase instalments relate to additional equipment which was acquired on 1 September 2010. Mojalefa paid a deposit of M13,770 and agreed to pay 24 instalments of M1,500 on the last day of each month. The cash price for the equipment would have been M45,900, and interest will be calculated using the straight-line method.
4. The trading loss was brought forward from the previous financial period, 2009/10.
5. Miscellaneous expenses include an insurance premium of M18,500, payable in respect of Mojalefa's business. 40% of the premium is payable to a South African insurance company.

Required:

(a) Calculate the tax payable by Mojalefa Kase for the year ended 31 March 2011 and state the due date of payment. (21 marks)

(b) Explain the ways in which the following tax losses may be utilised:

(i) Business losses; (1 mark)

(ii) Property losses; (1 mark)

(iii) Manufacturing losses; (1 mark)

(iv) Foreign source losses. (1 mark)

(25 marks)

2 Alutah Garments (Pty) Ltd is a Lesotho resident company engaged in the manufacturing of jeans for both local and overseas markets. The company also owns business premises which are sublet to other business ventures.

During the year to 28 February 2011, the summarised operating results of the company reflected the following information:

		Note	M
Manufacturing income:	Local		170,400
	Exports	1	220,000
Rentals			120,000
Other income		2	101,100
Depreciation		3	94,600
Other operating expenses		4	330,700

Notes:

1. Income from the exports is stated after deduction of M10,600 of foreign withholding tax paid.

2. Other income relates to the following:

   (i) Dividends received amounting to a total of M65,500. 60% of the dividends comprise foreign source income, which includes foreign tax paid of M7,500. The remaining 40% is Lesotho source income.

   (ii) Interest received from Lesotho financial institutions amounting to M35,600. No withholding tax had been deducted.

3. Depreciation relates to all of the company's assets held on 1 March 2010. The adjusted cost base (ACB) of the assets on that date was given as follows:

	ACB
Assets held	**M**
Industrial premises	340,200
Office and rented premises	720,900
Equipment	350,700

4. Other operating expenses include the following:

   (i) Cleaning services fees of M25,500, payable to a Lesotho resident company for provision of cleaning services.

   (ii) Lease rentals of M12,500, payable to a South African company for some of the equipment used in the manufacturing process.

5. Additional information:

   (i) On 1 October 2010, the company extended its industrial buildings at a total cost of M90,900 to accommodate its increased production capacity.

   (ii) The ACB for equipment in note (3) above includes the ACB of some equipment which was purchased on 31 January 2010 at a cost of M40,230. During the year, the company purchased additional equipment at M60,700. However, before the end of the year, the company sold most of its equipment with a view to invest in more advanced equipment. M400,765 of disposal proceeds were received by the company.

   (iii) Operating expenses need to be apportioned between manufacturing and non-manufacturing business income as appropriate.

   (iv) The company has elected for the pooling method to apply.

Required:

(a) **State, in general terms, the type of assets to which the pooling method may be applied and whether it must be applied to all eligible assets.** (3 marks)

(b) **Calculate the depreciation allowance claimable for tax purposes by Alutah Garments (Pty) Ltd for the year ended 28 February 2011.** (6 marks)

(c) **Calculate the tax payable by Alutah Garments (Pty) Ltd for the year ended 28 February 2011 and state the due date of payment.**

Note: where any income is not taxable or any expenditure not deductible, indicate this by the use of a zero. (15 marks)

(d) **Calculate the income tax instalments payable by Alutah Garments (Pty) Ltd for the year ended 28 February 2012.** (3 marks)

(e) **Explain the tax treatment of items (i) and (ii) in note (4) above, and calculate any withholding taxes payable by Alutah Garments (Pty) Ltd in the year ended 28 February 2011.** (3 marks)

(30 marks)

3 (a) Explain why value added tax (VAT) is referred to as an indirect tax. (2 marks)

(b) Explain the rules governing the place of supply and their importance in determining whether or not Lesotho VAT is due. (3 marks)

(c) State ANY THREE reasons why a vendor may, at any time, apply for cancellation of VAT registration. (3 marks)

(d) Billy Meat Market (Pty) Ltd, a Lesotho resident company and a registered value added tax (VAT) vendor, sells meat of different types in Lesotho and other countries at wholesale prices.

The following summarised transactions (inclusive of VAT where appropriate) for the company took place during the month of March 2011:

	M
Receipts received from local sales	31,300
Receipts received from export sales	21,000
Payments	152,000

Payments are in respect of the following:

(i) M15,000 paid for two cows purchased for slaughter from a non-vendor.

(ii) A reduced price of M125,000 paid for a purchase of a second-hand mini truck. The fair market value of the truck amounted to M140,000.

(iii) M12,000 relating to other expenses which are taxable at the rate of 14%.

Other relevant information:

During the month, the company celebrated its second anniversary since its inception. The company used meat which was readily available for sale to entertain its employees. The sale price of the meat was M3,500. However, no further record was made in the books of the company.

Required:

Calculate the following for Billy Meat Market (Pty) Ltd for the month of March 2011:

(i) Input VAT; (3 marks)

(ii) Output VAT; (3 marks)

(iii) VAT payable to/refundable from the Lesotho Revenue Authority. (1 mark)

Note: Your answer should provide a brief explanation for any items which are not liable to VAT.

(15 marks)

4 KKZ is a Lesotho resident partnership owned by Phala and Mike. Phala is a Lesotho resident partner and Mike is a resident non-resident partner. The partners share profits/losses of their business equally.

The partnership trading results for the period ended 31 March 2011 were as follows:

	M
Revenue: Business income	250,400
Property income	40,000
Trading expenses:	
Partners' wages and salaries	85,900
Pension contributions	10,308
Interest on partnership capital	2,500
Other operating expenses (all deductible)	32,300

Additional information:

(i) Property income relates to a foreign source interest which is stated after deduction of M2,700 of foreign tax paid.

(ii) The partners earn equal wages and salaries.

(iii) The partners contribute 8% of their basic salaries to a complying superannuation fund. The partnership contributes 17% on their behalf.

(iv) Interest at the rate of 5% per annum is payable on partners' capitals. Each partner contributed M25,000.

Required:

(a) Calculate the notional chargeable income of KKZ for the year ended 31 March 2011. (6 marks)

(b) Calculate the tax payable by each of the partners for the year ended 31 March 2011. (9 marks)

(15 marks)

5 Caledon Insurance Company (Pty) Ltd is a Lesotho resident company, with issued share capital of M90,000, divided into shares of 30,000 ordinary shares.

Required:

Explain the tax treatment in respect of the following transactions for Caledon Insurance Company (Pty) Ltd for the year ended 31 May 2011.

(i) Dividends of 50 Lisente per share paid on all shares in issue on 31 March 2011. On the same date, the company redeemed 7,500 shares of the 12,000 shares held by one of its resident shareholders. The shares were redeemed at M6·50 per share. (5 marks)

(ii) On 1 April 2011, the company provided an interest-free loan of M40,000 to one of its employees. The loan is payable over a period of 12 months. The Central Bank of Lesotho's discount rate was estimated at 14% while the average commercial lending rate was estimated at 21% for the year ended 31 May 2011. (3 marks)

(iii) The company provides a non-contributory medical aid scheme to all its employees on equal terms. The company paid medical aid contribution of M140,000 in total for the year ended 31 May 2011. (2 marks)

(iv) During the year to 31 May 2011, the company made the following payments on behalf of the Managing Director:

- **Housing allowance amounting to M18,000.** (2 marks)
- **Cellphone usage bill of M8,460 payable to a resident utility company.** (3 marks)

Note: your answer should include the calculations of any tax that would be payable by Caledon Insurance Company (Pty) Ltd.

(15 marks)

End of Question Paper