Answers

Section B *Marks*

1 Nava

(a) Nava is a resident non-resident because she has been in Lesotho for more than 182 days in a consecutive period from 1 September 2013 to 30 August 2015, which includes the whole of the year of assessment ended 31 March 2015 and part of the year of assessment ended 31 March 2016. 2

(b) Chargeable income for the year ended 31 March 2016

	M	Marks
Basic salary (150,000*5/12)	62,500	1
Housing allowance (62,500*10%)	6,250	½
Education allowance (7,000*5/12)	2,917	1
Gift	2,300	1
Terminal benefits:		
Gratuity	62,000	½
Severance pay (15,000 – 1,500)	13,500	1
Chargeable income	149,467	5

(c) (i) The value of a gift is NOT exempt and treated as part of chargeable income where:

– the gift itself is one of income; or ½
– is income derived from the property which is the subject of the gift; or 1
– the gift is from an employer to an employee. ½

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(ii) Terminal benefits are NOT exempt if, in total, they exceed 25% of the basic annual salary earned over the period of the employment. 1

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2 Basutoland Agricultural College (BAC)

(a) Fringe benefits tax (FBT) payable re Mokena for the year ended 31 March 2016

	M	Marks
Accommodation fringe benefit (12,300*12)	147,600	1
Car fringe benefit (540,000*15%)	81,000	1
Domestic assistance fringe benefit:		
Chauffer (8,500*12)	102,000	1
Bodyguard (exempt)	0	½
Loan fringe benefit (18%*2/3*80,000)	9,600	1
Debt waiver fringe benefit (80,000*50%)	40,000	1
Excessive superannuation contribution fringe benefit (working)	10,600	1½
Total taxable value	390,800	
Taxable amount (390,800/0·70)	558,286	½
FBT payable (558,286*30%)	167,486	½

Working:

	M	Marks
Maximum allowable contributions (1,122,000*20%)	224,400	
Employer contributions	(235,000)	
Excess contributions	10,600	
		8

(b) If BAC was a public international organisation (PIO), the taxable value of the fringe benefits received would constitute chargeable income for Mokena in addition to his basic salary. 2

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Marks

3 Kopano Enterprises Pty (KEP)

(a) Value added tax (VAT) payable for November 2016

	M	Marks
Output VAT		
Sales (130,400*14/114)	16,014	½
Credit notes (2,400*14/114)	(295)	1
Bad debt recovered (5,000*14/114)	614	1
	16,333	
Input VAT		
Purchases (92,500*14/114)	11,360	½
Rent (4,500*14/114)	553	½
Repairs:		
– labour (excluded – non-vendor)	0	1
– spare parts (4,000*14/114)	491	½
Utilities:		
– water (exempt)	0	1
– electricity (3,400*5/105)	162	½
	12,566	
VAT payable (16,333 – 12,566)	3,767	½
		7

(b) KEP was eligible to claim an input tax credit for the bad debt written off on the later of: ½

– the date on which the bad debt was written off in its books; and 1

– 12 months after the end of the tax period in which the VAT was paid in respect of the supply; 1

i.e. in the tax period commencing in December 2015. ½

3

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				Marks
4 Maja – Chargeable gains/income arising in respect of the disposal of assets in February 2016				
Chargeable gains				
	M	M	M	
Unimproved land				
Sale proceeds		120,000		½
Less: Adjusted cost base (ACB) (45,000*315/180)		(78,750)		1½
			41,250	
Building premises				
Sale proceeds (1,500,000 + 180,000)		1,680,000		1
Less: ACB:				
Land (25,000*315/185)	42,568			1
Building premises (260,000*315/210)	390,000			1
Extension	160,000			1
Repairs (revenue expense)	0			½
Boundary wall (85,000*315/218)	122,821	(715,389)		1
			964,611	
Private saloon car			0	½
			1,005,861	
Less: estate agent commission			(5,000)	½
Total chargeable gains			1,000,861	
Office equipment				
Sale proceeds			30,000	½
Less: ACB			(22,500)	½
Chargeable business income			7,500	½
				10

Tutorial notes:

1. *The negotiated price for the unimproved land is excluded because the adjusted base cost (ACB) of the land at the date of acquisition was its market value.*
2. *Indexation does not apply to the cost of the extension because it was constructed less than one year from the date of disposal.*
3. *The cost of the repairs incurred on the roof is excluded because they constitute revenue expenditure which should have been deducted against chargeable business income when incurred.*
4. *The private saloon car is excluded because it is a private asset, so any gain or loss is not recognised for tax purposes.*

Marks

5 Makume

(a) Individual income tax payable for the year ended 31 March 2016

	M	M	Marks
Income from construction business		350,000	½
Less: expenses			
Wages and salaries	196,000		½
Superannuation fund contributions (85,000*20%*2)	34,000		1
Repairs and maintenance	20,200		½
Insurance premium (12,500*40%)	5,000		1
Hire purchase interest (working 1)	2,813		
Depreciation (working 2)	100,130		
		(358,143)	
Trading loss		(8,143)	
Rental income	120,000		½
Less: expenses	(8,200)	111,800	½
Chargeable income		111,800	½
Tax payable:			
M54,770 at 20%		10,954	½
M57,030 at 30%		17,109	½
		28,063	
Less: Personal tax credit		(6,466)	½
Withholding tax (350,000*5%)		(17,500)	1
Net tax payable		4,097	

Workings:

		M	
1	Hire purchase interest payable		
	Total instalments (2,250*24)	54,000	1
	Add: Initial deposit	4,500	½
		58,500	
	Less: Market value	(45,000)	½
	Total interest	13,500	
	Interest payable for the year (13,500/24*5)	2,813	1
		M	
2	Depreciation		
	Assets held on 1 April 2015	96,380	½
	Equipment purchased on hire purchase (45,000*20%*5/12)	3,750	1
		100,130	
			12

(b) A trading loss cannot be set-off against any other income; it must be carried forward to the following year(s) of assessment and set-off against future chargeable income from the same source. 2

(c) Makume must file his return of income for the year ended 31 March 2016 by 30 June 2016. 1

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Marks

6 **River–Side Manufacturers Pty (RSM)**

Corporation tax payable for the year ended 31 March 2016

	M	M	Marks
Business income			
Local sales		420,000	½
Export sales (479,000 + 265,500)		744,500	1
		1,164,500	
Less: Expenses			
Staff costs (working 1)	347,275		
Legal and professional fees (43,100 – 1,500)	41,600		1
Advertising and promotion (32,000 – 1,000 – 2,000)	29,000		1½
Interest payable (working 2)	19,309		
Sundry expenses	110,000		½
		(547,184)	
		617,316	
Property income			
Foreign source dividends	38,000		½
Lesotho source interest (18,900/0·90)	21,000	59,000	1
Chargeable income		676,316	
Tax payable:			
Manufacturing income (617,316 at 10%)		61,732	½
Non-manufacturing income (59,000 at 25%)		14,750	½
Total tax payable		76,482	
Less: Local withholding tax (21,000 – 18,900)		(2,100)	½
Foreign tax credit (working 3)		(88,423)	
Tax refundable		(14,041)	

Workings:

1 Staff costs

	M	Marks
Staff costs (as per question)	350,000	½
Less: Disallowed entertainment (8,300*50%)	(4,150)	1
Add: approved training expense (5,700*25%)	1,425	1
	347,275	

2 Interest payable
Limited to debt to equity of 3:1
Equity capital is M120,000, so debt should be M360,000 (120,000*3) 1
Allowable interest limited to M19,309 (360,000/550,000*29,500) 1

3 Foreign tax credit
Average tax rate (76,482/676,316) 11·3% 1

Foreign income	Amount	Tax paid abroad	Lesotho tax at 11·3%	Foreign tax credit	Marks
	M	M	M	M	
Export sales	744,500	265,500	84,129	84,129	1
Dividends	38,000	5,700	4,294	4,294	1
				88,423	

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