Answers

Marks

1 Mr Mokema

(a) Income tax payable for the year ended 31 March 2014

	M	M	Marks
Employment income			
Basic salary	540,000		½
Housing allowance	54,000		½
Car allowance	36,000		½
Performance bonus	27,000		½
Education allowance	18,000		½
Entertainment allowance	20,000		½
Staff loan (taxable fringe benefit)	0		½
Reimbursements (taxable fringe benefit)	0		½
Meals and refreshments (taxable fringe benefit)	0		½
Employer superannuation contributions	0		½
		695,000	
Less: Employee superannuation fund contributions	43,200		½
Membership fee	3,500	(46,700)	½
		648,300	
Business income			
Revenue		280,000	½
Less:			
Salaries	95,000		½
Fringe benefits tax (110,000*15%)*35/65))	8,885		1½
Sundry expenses	70,000		1
		(173,885)	
		106,115	
Property income			
Proceeds on sale of shares	36,000		½
Adjusted cost base (ACB) (1,200*M30·20)	(36,240)		1
Loss on disposal of shares	(240)		
Chargeable income (648,300 + 106,115)		754,415	
Tax payable			
M51,670*22%	11,367		½
M702,745*35%	245,961		½
	257,328		
Less: Personal tax credit	(6,100)		½
PAYE	(176,183)		½
Net tax payable	75,045		
The due date for submission of Mr Mokema's tax return is by 30 June 2014.			1
			14

Tutorial note: *The incidental costs such as depreciation allowance pertaining to a car fringe benefit are fully allowable as business expenses notwithstanding a private use element.*

The loss on the disposal of the shares cannot be offset against any other income of the taxpayer. Instead, it will be carried forward and offset against future chargeable gains on the disposal of investment assets.

Marks

(b) **Fringe benefits tax payable**

	M	M	
Meals and refreshments fringe benefit		6,000	½
Loan fringe benefit (30,000*2/3*18%)		3,600	1½
Utilities fringe benefits:			
Water and electricity	4,500		½
Telephone usage	5,000		½
		9,500	
Taxable value		19,100	
Taxable amount (19,100/65%)		29,385	1
Fringe benefits tax (FBT)(29,385*35%)		10,285	1

Employers should file the quarterly fringe benefits returns within 14 days following the end of each quarter. 1

6

(c) Nedbank Lesotho is obliged to withhold tax at a rate of 10% on the interest payable to Mr Mokema. 1

The 10% interest is a final tax. Therefore, the interest is not included in the chargeable income of Mr Mokema. 1

As the interest is from a nominated savings account, Nedbank Lesotho should exempt the first M500 received by Mr Mokema from tax. 1

Nedbank Lesotho should remit the tax so withheld to the Lesotho Revenue Authority within 14 days from the day it was withheld. The tax withheld from Mr Mokema's interest will amount to M640 ((6,900 – 500)*10%). 2

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2 **Alex Sports Manufacturers**

(a) According to the Income Tax Act, the interest payable by a company which is not principally engaged in money lending transactions on long-term debt is limited to a debt to equity ratio of 3:1. Where the interest payable is in excess of this ratio, the Commissioner may disallow interest payable on the excess. 2

Interest deduction for Alex Sports Manufacturer

	M	
Equity	130,000	
Debt limited to (130,000*3)	390,000	
Excess debt (450,000 – 390,000)	60,000	1
Allowable interest (390,000/450,000*27,000)	23,400	1
Disallowed interest (60,000/450,000*27,000)	3,600	4

(b) Chargeable income of Alex Sports Manufacturers for the year ended 30 September 2014

	M	M	Marks
Profit for the year		650,000	
Add back: Disallowable expenditure:			
Retrenchment payments	0		½
Provision for directors' emoluments	65,500		1
Traffic fines	1,200		1
Insurance premium to non-resident insurer	5,400		1
Royalty payments	0		½
New equipment	15,600		½
Promotion and advertising	0		½
Penalties on late payment of PAYE	1,800		1
Interest on long-term loan (part (a))	3,600		½
Corporation tax	110,800		1
		203,900	
		853,900	
Less: Depreciation allowance on equipment (15,600*20%*8/12)		(2,080)	1
Local dividends (exempt) (52,000*15%)		(7,800)	1
Add: Withholding taxes not included in accounts:			
Local interest (25,700*30%)*10/90		857	1
Foreign interest		1,500	½
Chargeable income		846,377	11

(c) Tax payable by Alex Sports Manufacturers for the year ended 30 September 2014

		M	
Chargeable income as in (b) above		846,377	
Non-manufacturing income ((52,000 – 7,800) + 25,700 + 857 + 1,500)		72,257	
Manufacturing income		744,120	
Tax payable:			
Manufacturing at 10%	74,412		½
Non-manufacturing at 25%	18,064		½
		92,476	
Less: Foreign tax credit (W1)		(6,362)	
Local withholding tax on interest (25,700*30%)*10/90		(857)	1
		85,257	
The due date for payment of tax is on or before 31 December 2014.			1

Workings:

Foreign tax credit

Average Lesotho rate: 92,476/846,377 11% 1

Foreign income	Amount	Tax paid abroad	Lesotho tax at 11%	Credit available	
	M	M	M	M	
Dividends (52,000*85%)	44,200	12,500	4,862	4,862	1
Interest ((25,700*70%) + 1,500)	19,490	1,500	2,144	1,500	1
				6,362	6

(d) Income tax instalments payable by Alex Sports Manufacturers for the year ended 30 September 2015

Each instalment (30%*85,257)	M25,577	1
Due dates:		
First instalment	31 March 2015	1
Second instalment	30 June 2015	½
Third instalment	30 September 2015	½
		3

			Marks
(e)	**Withholding tax payable on royalties payments:**		
		M	
	Patent rights (10%*2,300)	230	1
	Trade mark (25%*2,000)	500	1
		730	2

Tutorial note: *Withholding tax at the standard rate of 25% is imposed on the gross amount of Lesotho royalties. A lower rate of withholding tax (10% of the gross amount) is applied on royalties paid in respect of rights to use technology in the manufacturing process.*

(f) Donations are generally not a tax deductible expense. However, a deduction will be allowed for sports donations if certain conditions are met. The conditions are that the donation is made to support sports organisations; is of M1,000 or more; and is paid to the Lesotho Sports and Recreation Commission who then distribute the donation on to the relevant organisation/individual specified by the donor. 3

(g) Terminal benefit payments received by an individual are exempt from income tax if they are below 25% of the basic salary earned during the period of employment. 1

30

3 Khabo Hypermarket (Pty)

(a) Khabo Hypermarket (Pty) is not compulsorily required to register for value added tax (VAT). ½

Where the turnover from the taxable supplies, including zero-rated supplies, but excluding exempt supplies, in any 12-month period is over M850,000, then it is compulsory to register for VAT. 1

The registration should be within 14 days of the end of the 12-month period in which the annual turnover exceeded the VAT threshold. 1

As it stands, the turnover for Khabo Hypermarket has never been in excess of the threshold of M850,000 for any 12-month period since December 2012 to February 2014.. ½

3

(b) The additional tax payable as a result of failure to register for VAT is calculated as 200% of the tax payable for the period during which the vendor should have been (but was not) VAT registered. 2

In this case, there is voluntary registration. 1

As a result of this voluntary registration, Khabo Hypermarket is not liable for any additional VAT payable. 1

4

(c) VAT payable/refundable for the month of February 2014

	M	
Output VAT	M	
Sales (65,200*14/114)	8,007	1
Input VAT		
Pre-registration purchases:		
December 2013 (15,200*14/114)	1,867	½
January 2014 (16,900*14/114)	2,075	½
Purchases (40,150*14/114)	4,931	½
Operating expenses (11,800 – 4,500 – 750)*14/114	804	1
Finance lease (26,220*14/114)	3,220	1
	12,897	
Tax refundable (8,007 – 12,897)	4,890	½
		5

Tutorial note: *Input VAT allowable in respect of pre-registration expenses relates to stock acquired in the two months prior to registration and still held at the date of registration.*

Insurance is an exempt supply and is excluded in the calculation of recoverable input VAT on operating expenses.

The instalment of M750 in respect of the finance lease is excluded. Instead, input VAT is recoverable based on the cash price of the truck as the supply occurs on the date that the lease contract commences.

		Marks

(d) The VAT obligations of a vendor include the following:

- To display a VAT registration certificate where it is clearly visible
- To charge VAT on all taxable supplies
- To file VAT returns, and remit VAT payable on or before the due date
- To inform the LRA of any changes pertaining to the business, such as the cessation of trading operations; a change of business location, etc.

Only THREE required.	**1 mark each. Maximum**	3
		15

4 Mr Nkamo

(a) Chargeable gains

		M	
Land			
Sale price		120,000	½
Adjusted cost base (ACB) (45,000*315/160)		(88,594)	1½
		31,406	
Building premises			
Sale price		1,300,000	½
ACB – Original cost (600,000 – 80,000 – 12,000) (508,000*315/190)	842,211		1½
ACB – Extension (80,000*315/230)	109,565		1
		(951,776)	
		348,224	
Swimming pool			
Sale price		170,000	½
ACB (55,000*315/260)		(66,635)	1½
		103,365	
Boundary wall			
Sale price		210,000	½
ACB		(140,000)	½
		70,000	
Furniture and fittings			
Sale price		500,000	½
ACB		(550,000)	1
		(50,000)	
Equipment			
Sale price		1,500,000	½
ACB		(950,000)	1
		550,000	
		1,052,995	
Less: Legal and stamp duties		(5,500)	1
Chargeable income		1,047,495	

A gain of M540,000 (1,100,000 – 560,000) from residential premises is excluded because a gain or loss arising from disposal of property which is of personal nature is not recognised for tax purposes. 1

13

Tutorial note: *Where the asset disposed of is an investment asset held by the taxpayer for more than 12 months, the adjusted cost base of the asset should be indexed for inflation.*

(b) Neither a gain nor a loss is recognised where the consideration received is less than the indexed adjusted cost base but greater than the unindexed adjusted cost base. 2

15

Marks

5 (a) Mr Khaka

(i) Tax payable by trustee and beneficiary

	Trustee M	Beneficiary M	
Share of trust income			
(1,500,000 – 70,000)*60%	858,000		1
(1,500,000 – 70,000)*40%		572,000	1
Tax payable at 35%	300,300		1
Tax payable at marginal rates			
51,670*22%		11,367	½
520,330*35%		182,116	½
		193,483	
Less: Personal tax credit		(6,100)	1
		187,383	5

(ii) The difference would be with regard to the treatment of the trading loss. If Ntebo and Palesa were operating in partnership, the trading loss would be allocated to the partners according to their distributive share of partnership income, and deducted from their gross income, rather than being deducted from notional trust income (as above). 2

(iii) Ntebo would be chargeable to tax on any foreign source income received by the trust in the future because at least one of the following conditions would be satisfied: 1

– The grantor (Mr Khaka) was a resident of Lesotho at the time of making the transfer to the trustee. 1½

– A resident person (Ntebo/Palesa) ultimately benefits from the income. 1½

4

(b) Mafa – Chargeable income

	M	
Value of land (exempt)	0	½
Value of building premises (exempt)	0	½
Rental income from the building premises	200,000	1
Annuity payment from trust estates	60,000	1
Value of shares (exempt)	0	½
Foreign-source dividends	30,000	½
Chargeable income	290,000	4
		15