Answers

1 Baba

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

	M	*Marks*
Revenue: Government ((560,000*60%)*100/95)	353,684	1
Other parties (560,000*40%)	224,000	1
Gain on disposal of truck (W1)	20,564	W
Cash drawings	42,000	½
Gross income	640,248	
Less allowable expenses:		
Wages and salaries (W2)	191,200	W
Pension contributions (W3)	19,400	W
Depreciation allowance (W1)	86,111	W
Finance lease interest (W4)	20,000	W
Insurance premiums (W5)	13,000	W
Miscellaneous expenses	22,000	½
	(351,711)	
Chargeable income	288,537	
Tax payable:		
First M51,670 at 22%	11,367	½
M236,867 at 35%	82,903	½
	94,270	
Less: Personal tax credit	(6,100)	½
	88,170	
Less: Withholding tax (353,684*5%)	(17,684)	1
Net tax payable	70,486	

Workings:

1. Depreciation

	M	
Light general purpose truck (old)		
1 December 2012 Cost	160,000	
31 March 2013 Depreciation (25%*4/12)	(13,333)	1
Adjusted cost base (ACB)	146,667	
1 June 2013 Depreciation (25%*2/12)	(6,111)	1
ACB	140,556	
Disposal value	161,120	½
Disposal gain	20,564	
Heavy general purpose truck		
1 July 2013 Cost	250,000	
31 March 2014 Depreciation (20%*9/12)	(37,500)	1
ACB	212,500	
Construction equipment		
1 January 2014 Cost	190,000	
31 March 2014 Depreciation (20%*3/12)	(9,500)	1
ACB	180,500	
Light general purpose truck (new)		
1 August 2013 Cost	198,000	
31 March 2014 Depreciation (25%*8/12)	(33,000)	1
ACB	165,000	
Total depreciation allowable (6,111 + 37,500 + 9,500 + 33,000)	M86,111	

			Marks
2.	**Wages and salaries**		
		M	
	Per question	237,500	
	Less: Baba's drawings	(42,000)	½
	Excessive compensation (3,000 – 1,200)	(1,800)	1
	Penalty	(2,500)	½
		191,200	

3.	**Pension contributions to employer pension fund**		
		M	
	Maximum ceiling:		
	(82,000 + 78,000)*20%	32,000	1
	Employee contributions (6,300*2)	(12,600)	
	Maximum allowable to employer	19,400	1

Tutorial note: *The allowable deduction for pension contributions to both employer and employee should not exceed 20% of employment income. Employee contributions are considered first. In this case the employer will be allowed the maximum of M19,400 (32,000 – 12,600), with the excess of M10,000 being treated as disallowed contributions.*

4.	**Finance lease interest**		
	Interest content per monthly instalment: (10,750 – 198,000/24)	M2,500	1
	Interest for 8 months (1 August 2013 to 31 March 2014)	M20,000	1
5.	**Insurance premiums**		
		M	
	Per question	25,000	
	Less: Non-resident company premiums	(7,000)	½
	Baba – personal expenditure	(5,000)	½
		13,000	
			18

(b) The maximum allowable deduction for a self-provided superannuation fund is 20% of the gross income of the taxpayer — 1

The maximum allowable deduction for Baba for the year ended 31 March 2014 is M128,050 (640,248*20%) — 1

2

(c) (i) Baba should keep a record, showing the following information:

- the name and address of each payee; — 1
- the amounts paid or payable to such persons; — 1
- the amounts of tax withheld; and — 1
- any other information as the Commissioner may require. — 1

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(ii) A withholding tax return should be filed within 28 days after the end of the year of assessment. — 1

25

	Marks

2 Roller Milling Lesotho (RML)

(a) (i) Insurance compensation received used to acquire a similar asset

This is treated as the disposal proceeds arising from an involuntary conversion of an asset. No gain or loss arises from an involuntary conversion when the disposal proceeds are wholly used to acquire a similar asset. However, if not all the proceeds are used to acquire a similar asset, the excess of the proceeds over the cost of the new asset is treated as a taxable gain. 2

Recognition of the gain or loss arising between the insurance proceeds and the adjusted cost base (ACB) or that part of it which relates to the amount re-invested is deferred until the taxpayer disposes of the replacement asset. 1

3

(ii) Expenses incurred prior to the commencement of trading are not deductible under the general principles, but the Act provides that certain expenses, such as large scale advertising, should be treated as start-up costs and written off for the period of four years. 2

Marking note: *Equal credit will be awarded to candidates who state that such expenses are amortised as Group 2 assets on a 20% declining balance basis.*

(b) Income tax instalments for the year ended 31 October 2013

Each tax instalment	(29,000 + 18,000)*30%	M14,100	1½
Due dates for each instalment:			
First instalment	30 April 2013		½
Second instalment	31 July 2013		½
Third instalment	31 October 2013		½
			3

(c) Corporation tax payable for the year ended 31 October 2013

	Business income M	Property income M	
Manufacturing income: (1,400,000 – 400,000)	1,000,000		½
Bad debt recovered	8,000		1
Gain from involuntary disposal of property (400,000 – 340,000)		60,000	1
Dividends: Local (exempt)		0	1
Foreign		60,000	1
Interest: Local (36,000*100/90)		40,000	1
Foreign (22,000 + 4,000)		26,000	1
Gross income	1,008,000	186,000	
Less: Allowable deductions			
Marketing and advertising (500,000 – 380,000) + (380,000/4)	215,000		1½
Staff costs (220,000 – 50%*8,000)	216,000		1½
Increase in provision	0		½
Bad debts written off	7,000		½
Sundry expenses	210,000		½
Loss of building (disallowed)	0		½
	(648,000)	0	
Chargeable income	360,000	186,000	

Tutorial note: *Start-up costs may also be amortised at 20% in the same way as Group 2 assets.*

Tax payable		
Manufacturing income at 10%	36,000	½
Non-manufacturing income at 25%	46,500	½
	82,500	
Less: Foreign tax credit (W)	(12,900)	W
Local withholding tax (40,000*10%)	(4,000)	1
Income tax instalments paid (3*14,100 (from (b))	(42,300)	½
Net tax payable	23,300	

The due date of payment is on or before 31 January 2014. 1

Marks

Working: Foreign tax credit

Average tax rate: 82,500/546,000				15%	1
Foreign income	**Amount**	**Foreign tax paid**	**Lesotho tax at 15%**	**Credit available**	
	M	M	M	M	
Dividends	60,000	16,000	9,000	9,000	1
Interest	26,000	4,000	3,900	3,900	1
				12,900	18

Tutorial note: *As explained in part (a)(i), the gain from the disposal of the factory building of M60,000 (400,000 – 340,000), i.e. the excess of the insurance compensation over the reconstruction or replacement cost, is treated as part of gross income. Recognition of the remaining difference between the insurance compensation and the adjusted cost base of M30,000 ((400,000 – 310,000) – 60,000) is not recognised for tax purposes until the replacement asset is disposed of.*

(d) The value of a canteen facility available only to senior employees is a taxable fringe benefit in the hands of the employer. 1

RML would be liable to fringe benefit tax (FBT) of M16,154 (30,000*35/65). ½

The FBT would be a tax deductible expense to RML for corporation tax purposes. ½

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(e) RML as a withholding tax agent is obliged to withhold tax from the distribution payments made to the contractors at the rate of 5% of the gross payment. 1

The tax so withheld should be remitted to the Lesotho Revenue Authority (LRA) within 15 days from the time when it was withheld. 1

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3 Mokonare

(a) To use the cash basis for value added tax (VAT):

– a taxpayer must be tax compliant; and
– 90% or more of the taxable value of his supplies should consist of the supply of services.

Mokonare meets these conditions and is therefore eligible to use the cash basis method to account for VAT. 2

(b) (i) VAT payable/refundable for the month of March 2014

	M	
Output VAT		
Local transport (exempt)	0	½
Trips to South Africa (zero rated)	0	½
Rental income:		
Other tenants (60,000 – 8,500)*14/114)	6,325	1
Manufacturing tenant (exempt)	0	½
	6,325	
Input VAT		
Building materials (42,000*14/114)	5,158	1
Repairs and maintenance:		
Buses: local transport (disallowed relates to exempt supply)	0	½
Buses: trips to South Africa (1,200*14/114)	147	1
Residential building premises (2,800*14/114)	344	1
Meals and refreshments (disallowed – see (ii) below)	0	½
New bus (230,000*14/114)	28,246	1
	33,895	
VAT refundable (33,895 – 6,325)	27,570	½
		8

Marks

(ii) Mokonare is not in the business of supplying entertainment, therefore, the cost of entertaining the bus drivers is not a taxable supply and so is disallowed. 1

(c) Time of supply

(i) The general rule governing the time of supply with regard to goods is the earlier of:

– the time the goods are removed from the supplier's premises; or	½
– the time the goods are made available to the person to whom they are supplied; or	½
– the time when the payment is received; or	½
– the time when an invoice is issued	½
	2

(ii) The answer would not change because as payment was effected in March, the time of supply in both cases is in March whether or not the goods were received in March or in the following month. 2

15

4 Lekau

(a) (i) Tax evasion refers to all attempts to minimise one's tax liability through illegal means, such as the non-disclosure of income. It is an offence and punishable in law. 1½

Tax avoidance refers to all attempts to minimise one's tax liability by legal means and without violating the tax laws, such as the use of reliefs and allowances provided by the tax law. 1½

Lekau has evaded tax because he has intentionally concealed the true value of his tax affairs by under-declaring his income for tax purposes. 1

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(ii) Where false or misleading information is provided, additional tax is payable equal to double the amount of the excess tax payable. 1

(iii) Additional tax payable

Lekau's declared income of M150,000 exceeds the first 22% band of individual income tax of M51,670. Therefore, the rate of tax applicable to all of the under-declared income will be 35%. 1½

Under-declaration	M160,000	
Tax at 35%	M56,000	½
Additional tax payable (x 2)	M112,000	1
		3

(b) (i) Minimum chargeable income for the year ended 31 March 2013

	M	
Vehicle amount:		
– Lekau and his wife (520,000 + 450,000)*25%	242,500	1
– Daughter	0	1
– Son (205,000*25%)	51,250	1
Principal residence amount (1,500,000*5%)	75,000	1½
Air travel (55,000 – 13,750*100%)	41,250	1½
	410,000	6

Tutorial note: *Only the vehicle and air travel amount paid in respect of a minor child are included in the calculation of minimum chargeable income. Lekau's daughter (age 25) is not a minor.*

(ii) Lekau's chargeable income for the year ended 31 March 2013 is the higher of the minimum chargeable income and the chargeable income declared, i.e. M410,000. 1

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Marks

5 Maeba

(a) Benefits/payments excluded from employment income

Benefits included in the fringe benefits taxable amount. 1

Exempt fringe benefits. 1

Reimbursement of expenditure incurred by an employee on behalf of the employer for which the employer would have been entitled to a deduction if the expenditure had been incurred directly by the employer. 1

Passage granted to an employee at the commencement or termination of an employment. 1

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(b) Chargeable income for the year ended 31 March 2014

	M	M	
Employment			
Annual salary		320,000	½
Bonus		15,000	½
Leave pay		11,000	½
Housing allowance		38,400	½
Conference fee		0	½
Passage granted		0	½
Value of birthday gift		1,000	½
		385,400	
Less: Accommodation and meals (6,000/2)		(3,000)	1
		382,400	
Rental income			
Rent received	120,000		½
Less: Municipality rates	(3,000)		½
Repairs and maintenance (212,000 – 82,000)	(130,000)		1
Loss carried forward	(13,000)		1
Gain on disposal of land			
Proceeds	120,000		½
Adjusted cost base (160,000/2)	(80,000)		1
		40,000	
Chargeable income		422,400	9

Tutorial notes:

1. *Expenses deductible against employment income, such as conference fees, accommodation and meals, are those which are attributable to the taxpayer only.*
2. *A loss from property income may not be deducted against the other income of an individual but must be carried forward and deducted against property income arising in a subsequent year.*

(c) A gift is treated as part of chargeable income where:

– the gift itself is one of income; 1
– the gift is from an employer to an employee (such as the birthday gift as in part (b) above); ½
– any income derived from property which is the subject of a gift (even if the gift itself is exempt). ½

2

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