Answers

Section A *Marks*

1 A

(310,000 x 30%) = M93,000

2 C

3 D

4 B

(25,500 x 3%)*10/30 = 255

5 A

6 C

(55,000 – 40,000 – 4,500) x 14/114)) = M1,289

7 C

(2,800,000 – {(550,000 x 325/210) + (35,000 x 325/140)}) = M1,867,560

8 B

(1,500 + 1,500) = M3,000 – registration plus accommodation

9 B

(290,000 – 220,000)*25% = M17,500

10 D

11 D

12 D

13 D

(25,000 x 50%) + (25,000 x 2/3 x 18%) x 0·3/0·7 = M6,643

14 B

(102,000 – 65,000) x 200% = M74,000

15 C

(72,000 + 123,429) = M195,429

2 marks each **30**

Section B *Marks*

1 Niki Manufacturers – Branch taxation

(a) (i) Niki Manufacturers qualifies to be a resident company because it undertakes the majority of its operations in Lesotho, though its head office is in China. 2

(ii) The branch of a non-resident company is a separate person which is a resident company. The branch is subject to tax on its worldwide income. That is Lesotho source and foreign source income. 2

(b) (i) Repatriated profits

	M	Marks
Income after tax: (1,200,000*90%)	1,080,000	1
(28,900*75%)	21,675	1
	1,101,675	
Reinvested profits in Lesotho (1,101,675*85%)	(936,424)	1
Repatriated profits	165,251	
Tax payable on repatriated profits (165,251*25%)	41,313	1
		4

Tutorial note: *The company in this case has manufacturing income which is subject to 10% corporation tax, the income after tax represents 90% of the total income. There is also non-manufacturing income in the form of interest which is subject to tax at the rate of 25%, income after tax is therefore 75% of total interest.*

(ii) Withholding taxes

	M	Marks
Management fees (12,500*25%)	3,125	1
Hire of equipment (18,000*10%)	1,800	1
	4,925	2
		10

2 Chargeable gains: Mr Phuthi

		M	M	*Marks*
(1)	**Land**			
	Sale price		430,000	½
	Adjusted cost base (ACB): 2 hectares (62,000*146/101)	89,623		1
	8 hectares (180,000*146/135)	194,667		1
			(284,290)	
	Chargeable gain		145,710	
(2)	**Warehouse**			
	Sale price		70,000	½
	ACB: Original cost (27,000*147/140)	28,350		1
	Extension	14,600		1
			(42,950)	
	Chargeable gain		27,050	
(3)	**Boreholes and windmills**			
	Sale price		80,900	½
	ACB (38,800*148/142)		(40,439)	1
	Chargeable gain		40,461	
(4)	**Tractors and equipment**			
	Sale price		510,000	½
	ACB		(240,000)	½
	Chargeable income		270,000	
(5)	**Livestock**			
	Sale price		240,000	½
	ACB		(110,000)	½
	Chargeable income		130,000	
Total chargeable gains			613,221	

Excluded items:

–	Residential house This is a private asset. Neither a gain nor a loss is recognised on the disposal of private assets.	1
–	Cost of maintenance and repairs for boreholes and windmills This is revenue expenditure	½
		10

Tutorial notes:

– *The adjusted cost base (ACB) of the asset acquired in a non-arm's length transaction (otherwise than by way of gift) is the market value of the asset at the date of acquisition.*

– *Where the asset is disposed of is an investment asset held by the taxpayer for more than 12 months, the ACB of the asset should be indexed for inflation.*

3 (a) VAT payable for the month of April 2015

	M	Marks
Output VAT		
Sales revenue (55,900*14/114)	6,865	1
Bad debt recovered (5,500*14/114)	675	1
Credit note for returned stock (6,200*14/114)	761	1
	8,301	
Input VAT		
Rent (4,500/3*14/114)	184	1
Sundry expenses (25,400*14/114)	3,119	1
	3,303	
VAT payable (8,301 – 3,303)	4,998	1
		6

Tutorial note: *Credit note received or debit note issued are to be reflected as output tax on the VAT return. The liability arises in the tax period when the event giving rise to the adjustment takes place and must be shown on the tax return for that month as in the case of LFW above.*

(b) Input VAT on bad debt written off (12,500*14/114) M1,535. 1

LFW was entitled to a credit during any tax period from September 2014. 1

2

Tutorial note: *The credit arises on the later of:*

– *The date on which the bad debt was written off in the accounts of the vendor.*
– *12 months after the end of the tax period in which the VAT was paid in respect of the supply.*

September 2014 is the later period when a bad debt was written off in the books of LFW.

(c) – An operating lease agreement represents periodic payments for which the supply is treated as being on a continuous basis. 1

– Each successive supply occurs at the earlier of payment being received or when payment becomes due. 1

2

10

4 Eric – Fringe benefits tax (FBT)

(a) FBT payable by BCE

	M	
Housing fringe benefit ((4,000 – 1,500)*9)	22,500	1
Car fringe benefit ((225,000*15%)*9/12)	25,313	1
Medical expenses fringe benefit (exempt)	0	½
Utilities fringe benefit (2,000*9)	18,000	½
Excessive superannuation fund fringe benefit (W)	8,100	
Taxable values	73,913	
Taxable amount (73,913/0·70)	105,590	½
FBT (105,590*30%)	31,677	½

Workings: Excessive superannuation fund fringe benefit

	M	
Ceiling (65,500*9*20%)	117,900	1
Employee contributions (4,600*9)	(41,400)	
Maximum allowable to employer	76,500	1
Employer contributions (9,400*9)	(84,600)	
Excessive superannuation fund contributions	8,100	1
		7

		Marks
(b)	BCE should file a fringe benefit tax return within 14 days after the end of every quarter.	1

(c) If BCE were a public international organisation (PIO), it would be exempt from FBT of M31,677. ½

All taxable fringe benefits amounting to M73,913 paid to Eric by BCE would constitute part of his employment income. ½

Eric would be liable to additional tax of M22,174 (73,913*30%). 1

2

10

5 Kumdah – Long-term contract

(a) Tax payable for years ended 31 March:

	2014 M	2015 M	
Chargeable income: (800,000*74%)	592,000		½ W
(800,000*26%)		208,000	½ W
Tax payable at 30%	177,600	62,400	2
Less: Withholding tax	(95,000)	(65,000)	1
Net tax payable/(refundable)	82,600	(2,600)	

Workings:

Chargeable income = (estimated profit) * (percentage of contract completed)
Estimated profit = (total contract price – total costs)

		M	
	(1,600,000 – 800,000)	800,000	1

Percentage of contract completed = $\frac{\text{Contract costs incurred}}{\text{Total contract costs}}$

Year ended 31 March 2014	$\frac{590,000}{800,000}$	74%	½
Year ended 31 March 2015	$\frac{210,000}{800,000}$	26%	½

6

(b) (i) The advantage of being an electing non-resident is that when a taxpayer files an income tax return, the taxpayer has an advantage to claim all the tax deductible expenses in computing chargeable income. 1

(ii) It was advantageous for Kumdah to be an electing non-resident because the net amount of tax he paid for this contract amounted to M80,000, (82,600 – 2,600)). 1

If he had not elected to be taxed by assessment, the tax withheld at source of M160,000 (95,000 + 65,000) would have been a final tax. 1

This means there is a tax saving of M80,000 (160,000 – 80,000). 1

3

(c) A South African citizen, as a non-resident taxpayer, will set off the loss against Lesotho's profits in the first year of the project provided that the loss cannot be carried forward, as there will be no relevant income in the subsequent year(s). 3

This can occur when the project is a one-off deal in Lesotho. 1

The taxpayer has to convince the Commissioner that he cannot obtain the benefit of the loss for tax purposes in other jurisdictions. 1

5

15

Marks

6 **JJ Motor Spares Pty Ltd (JJ)**

(a) **Income tax instalments**

	M	
Tax payable	96,700	
Less: Withholding taxes	(3,100)	½
ACT: no adjustment required		½
	93,600	
Each instalment (93,600*30%)	28,080	½
Total instalments (28,080*3)	84,240	½
		2

(b) **Advance corporation tax (ACT) payable**

	M	
Dividends paid out of unqualified income	54,600	
ACT (54,600*25/75)	18,200	1

To be set off against the first instalment of M28,080.

Payable on 30 May 2014. Therefore no ACT payable by JJ. 1

2

(c) **Tax payable**

	M	
Profit before tax	343,000	
Add: Disallowed expenses		
Renewal of trader's licence	0	½
Penalty for late renewal of trader's licence	450	½
Capital expenditure cost	500	½
Audit fees	0	½
Insurance premium payable to: Non-resident insurer	4,200	½
Resident insurer	0	½
Extension costs	44,000	½
Minor repairs	0	½
Municipality rates paid in advance	85	1
	392,235	
Less: Profit on disposal of motor vehicle	(30,000)	½
Lesotho source dividends	(14,300)	½
Foreign source dividends	0	½
Rental income received in advance	(4,050)	1
Add: Tax profit on disposal of motor vehicle (165,000 – 120,000)	45,000	½
Chargeable income	388,885	
Tax payable (388,885 at 25%)	97,221	1
Less: Foreign tax credit (8,300*25%)	(2,075)	1
Income tax instalments (28,080*3)	(84,240)	1
Net tax payable	10,906	11
		15

Tutorial note: *The full amount of instalments is credited against the income tax liability regardless of whether the income tax liability for ACT has been set off against the instalment.*