Answers

Marks

1 Mr Chauke

(a) Tax payable for the year ended 31 March 2012

	M	M	Marks
Basic salary		650,000	½
Motor car allowances (5,400*12)		64,800	½
Education allowance (5,500*2)		11,000	½
Entertainment allowance		12,600	½
Dividends received (exempt)		0	½
Award		2,300	½
Gross income		740,700	
Less: allowable expenses			
Superannuation contributions	39,600		1
Membership fee	2,600		1
Trade and management journals	34,800		1
Gift (disallowed)	0		1
		(77,000)	
Chargeable income		663,700	
Tax payable			
40,368*22%		8,881	½
623,332*35%		218,166	½
		227,047	
Less: personal tax credit		(5,000)	1
Net tax payable		222,047	9

(b) Allowable superannuation fund contributions to LKZ

	M	Marks
20% of employment income (740,700 – 2,300*20%)	147,680	1
Less: employee contributions	(39,600)	½
Maximum allowable deduction	108,080	½
		2

(c) If LKZ Business Consultants Ltd (LKZ) were a tax exempt employer, the excess contributions (which would not be allowed as a deduction to LKZ because of the application of 20% ceiling) would constitute an excessive superannuation contributions fringe benefit. 1

Fringe benefit tax payable

	M	Marks
Maximum allowable deduction as in (b) above	108,080	
LKZ contributions (9,300*12)	111,600	
Excess contributions	3,520	1
FBT (3,520/0·65*35%))	1,895	1
		3

			Marks
(d)	**Fringe benefits tax payable**		
		M	
	Housing fringe benefit (8,500*12)	102,000	1
	Loan fringe benefit (Working)	26,776	
	Debt waiver fringe benefit (27,900*50%)	13,950	1½
	Utilities fringe benefit	5,800	1
	Domestic assistance fringe benefit	4,700	1
	Taxable values	153,226	
	Taxable amount (153,226/0·65)	235,732	1
	Fringe benefits tax (235,732*35%)	82,506	½
	Working		
	Taxable value for loan fringe benefit		
	(420,000*$^2/_3$*16%) – (420,000*5%)	23,800	2
	(27,900*$^2/_3$*16%)	2,976	
		26,776	8

(e) A gift is not exempt from income tax if one of the following conditions prevail:

		Marks
–	Income is derived from the property which is the subject of the gift.	1
–	The gift is itself income.	1
–	The gift is made by an employer to an employee.	1
		3
		25

2 Ponto Manufacturers (Pty) Ltd

(a) The Lesotho Revenue Authority (LRA) is justified because, according to the Income Tax Act, when a resident company, not principally engaged in money lending transactions, has a debt to equity ratio in excess of 3:1, the Commissioner may disallow interest payable on that part of the excess. As it stands, Ponto has debt to equity ratio in excess of 3:1. 3

Working 1:

Disallowed interest in excess of debt to equity ratio of 3:1

	M	
Excess debt	100,000	1
Disallowed interest (100,000/250,000*62,500)	25,000	1
		5

Tutorial note: *If equity is M50,000, debt should be 150,000 (50,000*3). Excess debt is therefore M100,000. Interest attributable to excess debt is M25,000.*

(b) A loan made by a company to a shareholder which, in substance, is a distribution is treated as a disguised dividend. 1

Ponto will therefore be liable for advance corporation tax (ACT) on the amount of M75,000. 1

ACT	75,000 * 25/75	M25,000	1
			3

(c) Corporation tax payable

	Business income M	Property income M	Marks
Trading income: Local (478,800*100/114)	420,000		1
Exports (730,500 + 75,493)	805,993		1
Interest: Foreign (18,200 + 7,800)		26,000	1
Local (35,200*100/90)		39,111	1
Foreign dividends		25,100	1
Gain from disposal of immovable property (W1)		7,175	
Profit from disposal of business asset (W2)	68,428		
Gross income	1,294,421	97,386	
Less: allowable deductions			
Operating expenses (W3)	(657,137)	0	
Chargeable income	637,284	97,386	
Tax payable			
Manufacturing income at 10%		63,728	1
Non-manufacturing income at 25%		24,346	1
		88,074	
Less: foreign tax credit (W4)		(81,625)	
Local withholding tax		(3,911)	1
ACT (as in (b) above)		(25,000)	1
Tax overpayment		22,462	

Workings:

1. **Gain from disposal of immovable property**

	M	Marks
Proceeds	18,750	½
Adjusted cost base (ACB) (8,500*320/235)	(11,575)	1½
Chargeable gain	7,175	

2. **Profit from disposal of business asset**

	M	Marks
30 November 2010 cost	96,500	½
Depreciation (25%) (10/12)	(20,104)	1
30 Sept 2011 ACB	76,396	
Year ended 30 September 2012:		
Depreciation to 1 July 2012 (25%) (9/12)	(14,324)	1
ACB	62,072	
Proceeds	(130,500)	½
Profit	68,428	½

3. **Operating expenses**

	M	M	Marks
Total cost incurred		730,300	
Less: disallowed expenses:			
Non-compliance fees	4,700		1
Cost of new equipment	44,200		1
Interest payable (as in (a) above)	25,000		½
		(73,900)	
		656,400	
Add depreciation on new equipment (20%) (1/12)		737	1
		657,137	

Marks

4. **Foreign tax credit**

Average Lesotho tax rate 88,074/734,670 = 12% 1

Foreign income	Amount	Foreign tax paid	Lesotho tax	Credit available	
	M	M	M	M	
Exports	805,993	75,493	96,719	75,493	1
Interest	26,000	7,800	3,120	3,120	1
Dividends	25,100	3,765	3,012	3,012	1
				81,625	22
					30

3 Micky Ltd

(a) Value added tax (VAT) payable

Input VAT	M	
Purchases		
Supplies taxed at 15% (2,300*15/115)	300	1
Supplies taxed at 14% (18,500*14/114)	2,271	1
Supplies taxed at 0% (4,400 zero rated)	0	½
Equipment (8,500*14/114)	1,044	1
Repairs (excluded non-vendor)	0	1
Accounting fees (400*14/114)	49	1
Bank charges (exempt)	0	1
Utilities (4,200*5/105)	200	1
Miscellaneous expenses (6,500*14/114)	798	1
	4,662	
Output VAT	M	
Restaurant takings ((64,900 + 475)*14/114)	8,029	1½
Rentals: BBC Furnitures (5,400*14/114)	663	1
Honju Manufactures (exempt)	0	1
	8,692	
VAT payable (8,692 – 4,662)	4,030	12

(b) If the invoice accounting method is used, output VAT may be due to be paid over to the Lesotho Revenue Authority before the customer has paid the invoice, thus adversely affecting cash flow. 1

The cash accounting method allows output VAT to be accounted for based on actual cash receipts for the tax period instead of amounts invoiced. 1

However, using the cash accounting method means that input VAT can only be claimed according to the tax period in which the business has paid its suppliers, rather than in which invoices are received from suppliers. 1

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4 Boitumelo Trust

(a) Notional chargeable income

	Lesotho source	Foreign source	Total	
	M	M	M	
Trading income	240,000	120,200	360,200	1
Gross income	240,000	120,200	360,200	
Less: expenses	(85,000)	(60,400)	(145,400)	1
Loss brought forward	(45,000)		(45,000)	1
	130,000	60,400	190,400	3
Notional chargeable income	110,000	59,800	169,800	

Marks

(b) **Tax payable by beneficiary and trustee**

	Beneficiary M	Trustee M	Marks
Share of trust income:			
Lesotho source (30%)	33,000	(70%) 77,000	2
Foreign source (30%)	17,940	(70%) 41,860	2
Gross income	50,940	118,860	
Tax payable at marginal rates			
40,368*22%	8,881		1
10,572*35%	3,700		1
	12,581		
Less: personal tax credit	(5,000)		1
	7,581		
Tax payable at 35%		41,601	1
			8

(c) The trustee is chargeable to tax on the trust foreign source income when any one of the following conditions is satisfied:

- Where the grantor was a resident of Lesotho at the time of making a transfer to the trustee. 1.5
- Where the grantor was a resident of Lesotho in the relevant year of assessment. 1.5
- Where a resident person may ultimately benefit from the income. 1

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5 **(a)** **Source of income**

(i)	Lesotho source	1
(ii)	Lesotho source	1
(iii)	Lesotho source	1
(iv)	Foreign source	1
(v)	Lesotho source	1
(vi)	Foreign source	1
		6

(b) **Cargo Ltd**

(i) **Withholding tax payable and exempt amount(s) from withholding tax**

		M	Marks
(1)	Lease rentals (40,000*10%)	4,000	1
(2)	Patent fees (125,000*10%)	12,500	1
(3)	Dividends (exempt)	0	1
(4)	Transportation costs (35,000*10%)	3,500	1
(5)	Management fees (12,500*25%)	3,125	1
			5

Tutorial note: *A standard rate of 25% is applicable on international transactions except where the following prevail:*

- *There is a double tax treaty entered into with the government of Lesotho. In the case between Lesotho and South Africa, a lower tax rate of 10% is applicable.*
- *Royalties paid in respect of rights to use the actual manufacturing technology, a lower rate of 10% is applicable.*
- *Dividends are paid out of manufacturing income, no withholding tax payable.*

			Marks
(ii) Tax payable by Woodmasters Ltd (electing non-resident)			
	M	M	
Income:			
Lease rentals		40,000	½
Transportation fees		35,000	½
Gross income		75,000	
Expenses:			
Maintenance and service	16,500		½
Transportation	15,000		½
		(31,500)	
Chargeable income		43,500	
Tax payable (43,500*35%)		15,225	1
			3

(iii)

	M	
Tax payable by withholding (4,000 + 3,500)	7,500	
Tax payable by assessment	15,225	

As it stands, paying tax through the withholding tax system is the most cost efficient option for Woodmasters Ltd. 1

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