

Fundamentals Level – Skills Module

# Taxation (Lesotho)

Tuesday 4 December 2012



**Time allowed**

Reading and planning: 15 minutes

Writing: 3 hours

ALL FIVE questions are compulsory and MUST be attempted.  
Tax rates and allowances are on pages 2–3.

**Do NOT open this paper until instructed by the supervisor.**

**During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet until instructed by the supervisor.**

**This question paper must not be removed from the examination hall.**

The Association of Chartered Certified Accountants

The Lesotho Institute of Accountants

**ACCA**



# Paper F6 (LSO)

## **SUPPLEMENTARY INSTRUCTIONS**

- 1 Calculations and workings need only be made to the nearest M.
- 2 All apportionments should be made to the nearest month.
- 3 Unless stated otherwise, it should be assumed that a taxpayer is resident.
- 4 All workings should be shown.

## **TAX RATES AND ALLOWANCES**

The following tax rates and tax allowances are to be used in answering the questions:

### **Second Schedule (Section 9(1))**

#### **Resident individual income tax rates**

Chargeable income	Rate of tax
First M40,368	22%
Over M40,368	35%
Personal tax credit	M5,000

### **Third Schedule (Section 10)**

#### **Resident company income tax rates**

Nature of income	Rate of tax
1. Manufacturing income derived from a manufacturing activity of an industrial, scientific or educational nature which promotes industrial, scientific, educational or other development within Lesotho.	10%
2. Other manufacturing income	10%
3. Other income	25%
4. Commercial farming income	10%

### **Fourth Schedule (Sections 109, and 116)**

#### **Tax rate for trustees, fringe benefits and electing non-residents**

The applicable rate is 35%

**Sixth Schedule**

**(Section 41)**

**Declining balance depreciation rates:**

<b>Group</b>	<b>Depreciation rate</b>	<b>Assets included</b>
1	25%	Automobiles, taxis, light general purpose trucks, tractors for use over-the-road, special tools and devices.
2	20%	Office furniture, fixtures and equipment, computers and peripheral equipment and handling equipment, buses, heavy general purpose trucks, trailers and trailer mounted containers, construction equipment.
3	10%	Any depreciable asset not included in another group.
4	5%	Railroad cars and locomotives and railroad equipment, vessels, barges, tugs, and similar water transportation equipment, industrial buildings, engines and turbines, public utility plant.
5	100%	Mining

**Value added tax (VAT)**

Standard rate	14%
Electricity, telephone, water and sewerage rate	5%
Basic foods and agricultural inputs	0%

**ALL FIVE questions are compulsory and MUST be attempted**

- 1** Mr Chauke, a resident taxpayer, has been working for LKZ Business Consultants Limited (LKZ) as a managing director for more than ten years. Mr Chauke is also a shareholder in LKZ. In the year ended 31 March 2012, his remuneration package consisted of the following:
- (1) A basic salary of M650,000 per annum.
  - (2) A fully furnished house provided free of rental charge by LKZ. The fair market rental for similar houses is M8,500 per month.
  - (3) A motor car loan for M420,000 granted by LKZ on 1 April 2011. The loan was payable over a five-year period at the interest rate of 5% per annum. The Central Bank of Lesotho's discount rate averaged 16% throughout the year ended 31 March 2012. LKZ provides all senior managers with motor car allowances of M5,400 per month.
  - (4) A personal loan of M27,900 from LKZ to pay for his part-time studies, which are directly related to his current job. The loan was interest free and payable over a 12-month period. The Central Bank of Lesotho's discount rate averaged 16% throughout the year. LKZ waived 50% of the loan capital.
  - (5) Reimbursement of water and electricity utility payments which are substantiated by the supporting documents. Mr Chauke submitted supporting documents to the value of M5,800.
  - (6) An annual education allowance of M5,500 per child, aged between six and 21 years. Mr Chauke paid M25,000 for his two daughters, aged nine and 14 years, respectively.
  - (7) An entertainment allowance of M12,600 per annum.
  - (8) Dividends of M41,400 from a resident company.
  - (9) A long service award from LKZ, which was valued at M2,300.
  - (10) During the year, Mr Chauke was involved in an accident to an extent that he was unable to drive his motor car. LKZ provided him with a chauffeur at a total cost of M4,700.
  - (11) Mr Chauke contributed M3,300 on monthly basis to an approved employer superannuation fund. LKZ contributed M9,300 on his behalf into the fund.
  - (12) Mr Chauke is a member of a resident association of directors. During the year he made the following payments to the association:

	<b>M</b>
Membership fee	2,600
Trade and management journals	34,800
Gift (Note)	50

**Note:** The gift was awarded to one of the members of the Institute of Development Management in recognition of an outstanding contribution to provision of community services.

**Required:**

- (a) Calculate the tax payable by Mr Chauke for the year of assessment ended 31 March 2012. Your answer should indicate by the use of '0' those items which are exempt or non-deductible. (9 marks)
- (b) Calculate the amount of superannuation fund contributions for which LKZ Business Consultants Limited (LKZ) may claim a tax deduction. (2 marks)
- (c) In respect of transaction (11) above, explain the tax treatment of the excess contributions if LKZ were a tax exempt employer. Your answer should include calculations of any tax payable. (3 marks)
- (d) Calculate the fringe benefits tax payable by LKZ in respect of the benefits paid to Mr Chauke for the year of assessment ended 31 March 2012. (8 marks)
- (e) Explain the circumstances in which a gift is not exempt from income tax. (3 marks)

**(25 marks)**

- 2** Ponto Manufactures (Pty) Ltd, trading as Ponto, is a Lesotho resident company. The company is engaged in manufacturing of a wide range of leather products for both local and overseas markets. The company has equity capital of M50,000 and long-term debt of M250,000.

A self-assessment tax return of the company for the financial year ended 30 September 2012 shows the following trading results:

	Note	M
Business income:		
Local sales	1	478,800
Export sales	2	730,500
Net interest from foreign financial institutions		18,200
Related withholding tax		7,800
Net interest from resident financial institutions		35,200
Foreign dividends	3	25,100
Proceeds from disposal of immovable property	4	18,750
Proceeds from disposal of business asset	5	130,500
Operating expenses	6	730,300

**Notes:**

- Local sales are inclusive of value added tax (VAT) at the rate of 14%. All the VAT was duly remitted to the Lesotho Revenue Authority (LRA).
- Export sales are stated after deduction of M75,493 of foreign withholding tax paid.
- Foreign dividends were received from South African companies. The amount includes M3,765 foreign withholding tax paid.
- Proceeds from disposal of immovable property relates to property acquired in December 2007 for M8,500. It was disposed of in April 2012. The consumer price indices for December 2007 and April 2012 were 235 and 320, respectively.
- Proceeds from disposal of a business asset relates to the company's delivery van sold on 1 July 2012. The van was sold for M130,500. The cost of the van when it was first acquired on 30 November 2010 was M96,500. The related depreciation allowance of the van had correctly been accounted for in the books of the company.
- Operating expenses, which are all attributable to production operations, include the following:
  - Legal and professional fees of M20,800 comprising:

	M
Accounting and audit fees	12,600
Renewal of trading licences	3,500
Non-compliance penalties	4,700

- Maintenance and service of equipment amounting to M65,400. Included in this amount is M4,500 for spare parts, and M44,200 for new equipment purchased on 31 August 2012, which is used in the production process.
- Interest payable of M62,500 in respect of the company's long-term debt.

**Additional information:**

On 1 August 2012, one of the shareholders of the company was granted an interest free loan amounting to M75,000. The terms of repayment for the loan are not known.

**Required:**

- (a) Ponto received a letter from the Lesotho Revenue Authority (LRA) stating that part of the interest payable is not deductible for tax purposes. Advise Ponto whether the LRA is justified in restricting the deductibility of the interest payable and calculate the amount that should be deductible. (5 marks)
- (b) Explain the tax treatment of the interest free loan granted to one of the shareholders of Ponto. Your answer should include calculations of tax payable (if any). (3 marks)
- (c) Calculate the corporation tax payable by Ponto for the year ended 30 September 2012. Your answer should take into consideration the explanations given in (a) and (b) above. (22 marks)

**(30 marks)**

- 3 Micky Ltd is a registered vendor who accounts for value added tax (VAT) on the cash method. The company owns a large commercial building which is partitioned into three apartments. The first two apartments are rented out to BBC Furnishers and Honju Shoes Manufactures. BBC Furnishers is engaged in buying and selling of household furniture. Honju Shoes Manufactures is a manufacturer of leather shoes. The rent is payable in advance for every quarter. The third apartment is occupied by Micky Ltd as a restaurant.

The following is the summarised financial information for Micky Ltd for the month of October 2012. All figures are inclusive of VAT where appropriate:

	Note	M
Income		
Restaurant		64,900
Rentals: BBC Furnishers		5,400
Honju Shoes Manufactures		6,000
Purchases		
Supplies taxable at: 15%		2,300
14%	1	18,500
0%		4,400
Expenses		
Wages and salaries		8,000
Depreciation	2	140
Repairs	3	750
Accounting fees	4	400
Bank charges		250
Utilities		4,200
Miscellaneous expenses (taxable at 14%)		6,500

**Notes:**

- Supplies taxable at 14% include supplies at a cost of M350 which were used as staff refreshments during the month. The selling price for those supplies would amount to M475.
- Depreciation relates to equipment amounting to M8,500. The equipment was purchased at the beginning of the month.
- M750 for repairs was paid to Sobo Electrics for repairing Micky Ltd's refrigeration. Sobo Electrics is not registered for VAT.
- Accounting fees were paid to KK Business Consultants, a registered vendor.

**Required:**

- Calculate the value added tax (VAT) payable by/refundable to Micky Ltd for the month of October 2012. Your answer should indicate items on which input VAT is not claimable or on which output VAT is not charged by the use of '0'.** (12 marks)
- Explain how advantageous it may be for Micky Ltd to use the cash accounting method instead of the invoice accounting method in the event where cash receipts from receivables are delayed.** (3 marks)

**(15 marks)**



- 4 In October 2005, Boitumelo Trust was established following the untimely death of Mr Mooki, one of the prominent businessmen in Maseru. The entire estate of the late Mr Mooki was then transferred to the trust. Under the terms of Mr Mooki's will, the sole beneficiary of the trust income is his only son, Jafeta, who is entitled to 30% of the trust income. Jafeta is now aged 22 years. The wife of Mr Mooki was appointed as a trustee and is entitled to the remaining 70% of the trust income.

The following is the summarised financial information of Boitumelo Trust for the year of assessment ended 31 March 2012:

	M
Trading income	
Lesotho source	240,000
Foreign source	120,200
Expenses (all tax deductible)	
Lesotho source	85,000
Foreign source	60,400
Loss brought forward	45,000

**Additional information:**

Loss brought forward is a trading loss incurred in the previous year of assessment ended 31 March 2011. The loss is attributable to the Lesotho source income.

**Required:**

- (a) Calculate the notional chargeable income of Boitumelo Trust for the year ended 31 March 2012.

(3 marks)

- (b) Calculate the tax payable by the:

- (i) trustee; and
- (ii) beneficiary (Jafeta).

The total marks will be split equally between each part.

(8 marks)

- (c) Explain the conditions which should be satisfied for the trustee to be chargeable to tax on the trust's foreign source income.

(4 marks)

**(15 marks)**

- 5 (a) You have been provided with the following transactions involving different taxpayers:
- (i) Payment of a monthly salary to Nkau, a non-resident individual, by Lora Properties. Lora Properties is a branch of Lora Investments, a non-resident company based in Botswana. Salaries for all employees of Lora Properties are paid for by Lora Investments from Botswana.
  - (ii) Income earned by Maja, a resident individual, who is employed as one of the drivers of the horse trailers for Ozi Freight services, a South African company which performs services in and out of Lesotho.
  - (iii) Payment by the World Bank to AZZ Consultants, non-residents, for carrying out consultancy in relation to capacity development on behalf of the Ministry of Education in Lesotho.
  - (iv) Payment of an annuity to Toloane, a resident individual, by Capp Ltd, a South African company. Toloane was a former employee of Capp Ltd.
  - (v) Payment of loan interest by Tau Ltd, a resident company, to Mackenzie Financial Services, a South African company. The loan was used to finance the renovations of Tau Ltd.
  - (vi) Income received by Lillo, a resident individual, for operating as one of the crew members of a South African aircraft. The services are performed in South Africa.

**Required:**

**State whether each of the transactions (i) to (vi) constitutes Lesotho source or foreign source income.**

The total marks will be split equally between each part.

(6 marks)

- (b) Cargo is a resident company engaged in the manufacturing of high quality office furniture. The company's transactions for the year ended 31 October 2012 were as follows:
- (1) Lease rentals of M40,000 paid to Woodmasters Ltd, a South African company, for some of the equipment used in the manufacturing process in Lesotho. Maintenance and service costs incurred by Woodmasters Ltd for the leased equipment amounted to M16,500. Woodmasters Ltd manufactures various wooden products and distributes wood across the entire region of Southern Africa.
  - (2) Patent fees of M125,000 paid to a foreign company based in China for a specialised technology used in the manufacturing process in Lesotho.
  - (3) Dividends amounting to M54,900 paid to a holding company based in Taiwan.
  - (4) Transportation costs amounting to M35,000 paid to Woodmasters Ltd for delivery of wood to Cargo Ltd. Woodmasters incurred a total of M15,000 to transport wood.
  - (5) Management fees amounted to M12,500 paid to a holding company in Malaysia for the directorship services provided to Cargo Ltd during the year.

Lesotho has a double tax treaty with South Africa.

**Required:**

- (i) For each of the amounts in (1) to (5) above, calculate the Lesotho withholding tax due or state that the amount is exempt from Lesotho withholding tax; (5 marks)
- (ii) Calculate the tax that would have been payable by Woodmasters Ltd if the company had elected to be taxed by assessment, in accordance with s.109 of the Act, instead of suffering withholding tax; (3 marks)
- (iii) Based on your answer in (i) and (ii) above, advise Woodmasters Ltd of the most tax efficient option of paying Lesotho tax. (1 mark)

**(15 marks)**

**End of Question Paper**