Answers

Marks

1 Ms Moyo

(a) Income tax payable by Ms Moyo for the year ended 31 March 2013

	M	M	Marks
Employment income:			
Basic salary (548,400*8/12)	365,600		½
Car running costs allowance (2,500*8)	20,000		½
Entertainment allowance (1,000*8)	8,000		½
Bonus	12,500		½
	406,100		
Less: contributions to employer superannuation fund (2,700*8)	(21,600)		1
		384,500	
Terminal benefits:			
Gratuity	320,500		½
Severance pay (160,000 – 1,500)	158, 500		1
		479,000	
		863,500	
Business income:			
Consultancy income	26,500		½
Property income: Lesotho source interest	7,900		½
Foreign source gain (exempt)	0		½
		34,400	
Chargeable income		897,900	
Tax payable:			
First 48,744 at 22%		10,724	½
849,156 at 35%		297,205	½
		307,929	
Less: personal tax credit		(5,755)	1
		302,174	8

Tutorial note: *An expatriate taxpayer is liable for tax in Lesotho on different classes of tax as follows:*

– *Employment and business income*	*worldwide*
– *Business income*	*worldwide*
– *Property income*	*Lesotho source*
– *Other income or gain*	*worldwide except for gain on disposal of foreign investment income.*

(b) Fringe benefit tax payable (FBT)

	M	Marks
Housing fringe benefit ((3,500 – 1,200)*8)	18,400	1
Car fringe benefit ((350,000*15%)*8/12)	35,000	1½
Utilities fringe benefit	3,000	1
Medical expenses fringe benefit (exempt)	0	1
Meals and refreshments fringe benefit (350*8)	2,800	1
Loan fringe benefit (see working)	1,800	
Taxable values	61,000	
Taxable amount (61,000/0·65)	93,846	1
FBT (93,846*35%)	32,846	½

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

Working

Taxable value for loan fringe benefit		
(60,000*2/3*21%) – (60,000*8%)*6/12	1,800	2
		10

		Marks
(c)	If Anglo was a Public International Organisation, it would be exempt from both income tax and FBT of M32,846.	2
	All taxable fringe benefits amounting to M61,000 paid to Ms Moyo would constitute part of her employment income subject to tax.	1
		3
(d)	Standard Lesotho Bank, as one of the withholding tax agents, is obliged to withhold tax from the interest payable to Ms Moyo at the rate of 10% of the gross amount of interest.	2
	Standard Lesotho Bank is also obliged to pay the tax so withheld to the Lesotho Revenue Authority within 15 days from the time when it was withheld.	2
		4
		25

2 Celtic Pharmaceutical Corporation (Pty) Ltd

(a) Substituted accounting period

(i)	A taxpayer wishing to use a substituted accounting period must be a company and must make an application in writing to the Commissioner, showing a compelling need.	2
	CPC is justified to use the substituted accounting period because it is compelled to use the accounting period similar to that of its parent company, which is 31 October instead of 31 March.	2
		4
(ii)	The Commissioner may impose conditions to ensure that there is no loss or deferral of tax as a result of the company using a substituted accounting period.	2

(b) Chargeable income for the year ended 31 October 2012

	M	M	
Net profit before tax		349,050	
Add: disallowed expenses			
50% entertainment	7,500		1
Quality control (pre-production)	12,000		1
Production equipment	80,600		1
Goodwill (19,300 – (19,300/4))	14,475		1
Patents fees (23,000 – (23,000/5)	18,400		1
Penalty – VAT evasion	900		½
Depreciation	178,400		½
Insurance non-resident	9,960		1
		322,235	
Less: tax deductible expenses			
Depreciation allowance (see WK 1)	166,508		
Interest on finance lease (see WK 2)	7,800		1
		(174,308)	
Chargeable income		496,977	

Workings:

1. Depreciation allowance

	M	
Production equipment:		
1 May 2011 cost	80,600	
Depreciation (20%) (6/12)	8,060	1
31 October 2011 ACB	72,540	
Year ended 31 October 2012:		
Depreciation (20%)	14,508	½
31 October 2012 ACB	58,032	

	M	Marks
Furniture and fittings:		
1 November 2011 cost	65,000	
Depreciation (20%)	13,000	½
31 October 2012 ACB	52,000	
Plant and machinery:		
1 November 2011 cost	120,000	
Depreciation (20%)	24,000	1
31 October 2012 ACB	96,000	
Delivery van:		
1 November 2011 cost	460,000	
Depreciation (25%)	115,000	1
31 October 2012 ACB	345,000	12

Total depreciation allowance (14,508 + 13,000 + 24,000 + 115,000) = M166,508

2. **Finance lease:**

Year	**Cost M**	**Lease payments M**	**Interest (15%) M**	**Balance M**
2011/12	120,000	68,000	7,800	59,800

(c) Tax payable for the year ended 31 October 2012

		M	
Chargeable income (as in (b) above)		496,977	
Manufacturing income:			
(496,977 – 40,500)	456,477 at 10%	45,648	1
Non-manufacturing income (interest)	40,500 at 25%	10,125	1
		55,773	
Less: foreign tax credit (see working)		(1,958)	
Local withholding tax		(2,270)	1
Net tax payable		51,545	

Due date of submission of tax return is on or before 31 January 2013. 1

Working:

Average tax rate: 55,773/496,977 11% 1

Foreign tax credit for foreign dividends:

	M	
Tax paid abroad	4,500	
Lesotho tax (17,800*11%)	1,958	
Foreign tax credit available	1,958	1
		6

(d) Withholding tax payable

	M	
Accounting and audit fees (8,300*10%)	830	1
Management fees (5,900*25%)	1,475	1
	2,305	

It should be remitted to the Lesotho Revenue Authority within 15 days following the date of payment. 1

3

Marks

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

30%*(55,773 – 2,270 – 1,958)		M15,464	1
Each instalment will be 30% and will be payable as follows:			½
First instalment	30 April 2013		½
Second instalment	31 July 2013		½
Third instalment	31 October 2013		½
			3
			30

3 Makhaola Concrete Blocks – value added tax (VAT)

(a) VAT payable to/refundable from Lesotho Revenue Authority (LRA)

	M	
Output VAT		
Sales:		
Local (45,300*14/114)	5,563	1
Export (zero rated)	0	½
	5,563	
Input VAT		
Cement (25,600*14/114)	3,144	1
Repairs (excluded non-vendor)	0	½
New equipment (17,670*14/114)	2,170	1
Installation of fixtures and fittings (5,300*14/114)	651	1
Electricity (2,400*5/105)	114	1
Electric heater (600*14/114)	74	1
Water consumption (exempt)	0	½
Wages and salaries (excluded)	0	½
Interest on bank overdraft (exempt)	0	½
	6,153	
VAT refundable (5,563 – 6,153)	590	½
		9

(b) VAT is not chargeable on supplies of either zero rated or exempt items. However, zero rated supplies are taxable supplies. Thus input tax on purchases related to zero rated supplies may be claimed, whereas input tax on purchases related to exempt supplies may not be claimed. 2

(c) The advantage of registering voluntarily is that a vendor can claim input VAT. 1

(d) Tax obligations of MCB as a vendor include the following:

- Display the VAT registration certificate in the public area of the business.
- Charge VAT on taxable supplies.
- Submit VAT returns and pay VAT on or before the due date to LRA.
- Provide proper VAT invoices containing the details required by law.
- Advise LRA of any change in business details.

NB: Only three obligations required. 1 mark each, maximum 3

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				Marks
4 Mrs Kepu				
(a) Chargeable gains and business income				
	M	M	M	
(1) Land				
Sale price		65,000		½
Adjusted cost base (ACB) (35,300*260/180)		(50,989)		1½
			14,011	
(2) Guest house				
Sale price		2,250,000		½
ACB (450,000*265/120)	993,750			1½
(120,000 – 40,000)	80,000			1
		(1,073,750)		
			1,176,250	
(3) Premises sub-let:				
Sale price		1,260,700		½
Less: ACB				
Land (32,400*270/150)	58,320			1½
Construction (260,000*270/180)	390,000			1½
		(448,320)		
			812,380	
(4) Shares:				
Sale price		50,800		½
ACB		(42,400)		1
			8,400	
Chargeable gain			2,011,041	
Business income:				
Rentals (12,500*7)		87,500		1
Trading profit	65,000			1
Less: loss brought forward	(7,800)			1
		57,200		
			144,700	
Chargeable income			2,155,741	13

(b) A gain or loss arising from the transfer of property which is of a personal nature is not recognised for income tax purposes; therefore gains on the private assets sold by Mrs Kepu are not taxable. 2

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Marks

5 Mpeli Contractors Pty – Long-term contract

(a) Chargeable income

Year of assessment ended 31 March

		M	
2012	(880,000*60%)	528,000	1
2013	(880,000*40%)	352,000	1

Workings:

Chargeable income = (estimated profit)*(percentage of contract completed)

	M		
Estimated profit = (Total contract price – Total costs) (2,200,000 – 1,320,000)	880,000		1

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

31 March 2012	$\dfrac{792{,}000}{1{,}320{,}000}$	60%	1
31 March 2013	$\dfrac{528{,}000}{1{,}320{,}000}$	40%	1
			5

(b) Withholding tax credit available

Year ended 31 March 2012:

		M	
Income received:	November 2011	284,000	
	February 2012	341,000	
		625,000	
Withholding tax paid (625,000*5/95)		32,985	1

Year ended 31 March 2013:

		M	
Income received:	June 2012	800,000	
	October 2012	665,000	
		1,465,000	
Withholding tax paid (1,465,000*5/95)		77,105	1
			2

(c) Lesotho Road Fund is justified because Mpeli Contractors Pty is a resident contractor, and the payments made to the contract are in excess of M3,000. (s.157) 2

(d) Utilisation of long-term contract loss

- A contract loss may be carried forward to subsequent year(s) of assessment and be offset against relevant income arising in subsequent year(s). 2
- Alternatively, a contract loss may be carried back to a preceding year of assessment and be offset against relevant income. 2
- The loss may be carried back provided the following conditions prevail:
  - When the Commissioner is convinced that the taxpayer is unable to carry the loss forward and offset it against relevant income in subsequent year(s). 1
  - When the Commissioner is satisfied that the taxpayer cannot obtain the benefit of the loss for tax purposes in other jurisdictions. 1

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