
Answers

Section B

Marks

1 Mohokare Tiles Manufactures Pty (MTM)

(a) Withholding tax to be remitted by MTM

	M	
(i) Fixtures and fittings payments (15,700*5%)	785	1
(ii) Lease rentals payments (82,300*10%)	8,230	1
(iii) Audit fees payments (46,000*10%)	4,600	1
(iv) Management fees payments (54,000*25%)	13,500	1
Dividends ((120,000*20%)*25%)	6,000	1

The remaining dividends of M96,000 (120,000*80%) are paid out of manufacturing income, which is not subject to withholding tax.

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(b) The four types of information in respect of withholding taxes which need to be recorded and kept for inspection by the LRA are:

- the name and address of each payee; 1/2
- the amounts paid or payable to such persons; 1/2
- the amounts of tax withheld; and 1/2
- any other information as the Commissioner General may require. 1/2

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(c) The income tax rate applicable to an electing non-resident, such as Lousier Chartered Accountants, is 35%.

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2 Soli Limited and Joseph

(a) An expatriate taxpayer is an individual (other than a permanent resident citizen of Lesotho) who is employed or engaged under a technical services contract in Lesotho.

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(b) Fringe benefits tax (FBT) payable by Soli Limited

	M	
(i) Accommodation fringe benefit ((8,500 – 1,500)*12)	84,000	1
(ii) Car fringe benefit (490,000*15%)	73,500	1
Loan fringe benefit (30,000*2/3*18%)	3,600	1
Utilities fringe benefit	15,200	1/2
	<u>176,300</u>	

Taxable amount (176,300/0.70)	251,857	1/2
FBT (251,857*30%)	<u>75,557</u>	1/2

The due date for submission of the first quarter's return is on or before 14 July 2015.

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(c) Total allowable expenses claimable by Soli Limited

	M	
Basic salary	786,000	1/2
Reimbursement of relocation costs	4,500	1
Medical expenses	14,400	1/2
FBT (as in (b) above)	<u>75,557</u>	1
	<u>880,457</u>	3

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3 Pheko

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

- a taxpayer must be tax compliant; and 1
 - 90% or more of the taxable value of their supplies should consist of the supply of services. 1
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(b) VAT payable/refundable for the month of April 2016

	M	
Output VAT		
Revenue: $((85,000 - 12,500) + (620 - 450)) \times 14/114$	8,924	2
Input VAT		
Spray paints $((25,000 \times 50\%) \times 14/114)$	1,535	1
Subcontracting fees $(7,000 \times 14/114)$	860	1/2
Rent $((4,500 \times 300/420) \times 14/114)$	395	1
Utilities: Water (exempt)	0	1/2
Electricity $((2,400 \times 300/420) \times 5/105)$	82	1
Entertainment costs (disallowed)	0	1/2
Bank overdraft interest (exempt)	0	1/2
	2,872	
VAT payable $(8,924 - 2,872)$	6,052	1/2
The due date for submission of the VAT return is on or before 20 May 2016.		1/2
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4 Lefa

(a) Chargeable gains for the year ended 31 March 2016

	M	M	
Shares in Josh Pty			
Sale price		875,000	1/2
Adjusted cost base (ACB) $(3,500 \times M80)$		(280,000)	1
Chargeable gain		595,000	
Premises			
Sale price		2,800,000	1/2
ACB: Initial cost $(340/120 \times 810,000)$	2,295,000		1
Renovation: $(340/280 \times 210,000)$	255,000		1
$(340/280 \times 70,000)$	85,000		1
Security wall	35,000		1/2
Legal and administrative costs	12,000		1/2
		(2,682,000)	
Chargeable gain		118,000	

The cost of the repairs to locks and painting of walls of M5,000 is excluded because it is a revenue expenditure. 1

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(b) No gain or loss is taken into account for the purposes of determining chargeable income on:

- A transfer of assets between spouses. 1
 - A transfer of assets between former spouses as part of a divorce settlement. 1
 - The involuntary conversion of an asset where the proceeds are reinvested in an asset of a like kind. 1
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5 Partnership: Paul and Moses

(a) Notional chargeable income of the partnership for the year ended 31 March 2015

	M	
Business income	1,500,000	½
Less: Business expenses:		
Salaries	420,500	½
Pension contribution (252,500*20%)	50,500	1½
Interest on capital (60,000*20%)	12,000	1
Sundry expenses (120,000 – (8,000 – 1,200) – 23,200)	90,000	2
	<u>(573,000)</u>	
	927,000	
Property income:		
Interest (34,400 + 7,912)	42,312	1
Gain on disposal of business assets (working)	160,000	½
	<u>202,312</u>	
Total chargeable income (927,000 + 202,312)	1,129,312	

Working: Gain on disposal of business assets

Asset	Adjusted cost base (ACB) M	Market value (MV) M	Gain/(loss) M	
Business vehicles	2,100,000	2,300,000	200,000	½
Office equipment	340,000	300,000	(40,000)	½
Gain	<u>2,440,000</u>	<u>2,600,000</u>	<u>160,000</u>	<u>8</u>

(b) Tax payable by each partner for the year ended 31 March 2016

	Paul M	Moses M	
Distributive share of partnership			
Income:			
Lesotho source (927,000 + 160,000)*1/2)	543,500	543,500	1
Foreign source interest (42,312*1/2)	21,156	0	1
Salary	126,250	126,250	1
Interest on capital (30,000*20%)	6,000	6,000	1
Gross income	<u>696,906</u>	<u>675,750</u>	
Less: Expenses:			
Pension contributions	(9,600)	0	1
Share of trading loss from previous year	(11,600)	(11,600)	1
Chargeable income	<u>675,706</u>	<u>664,150</u>	<u>6</u>

(c) A partnership is considered to be resident in Lesotho for a year of assessment if at any time during that year one of the partners is a Lesotho resident.

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6 Bantu Construction Pty

- (a) For a company to use a substituted accounting period, it must make an application to the Commissioner General showing a compelling need. 1
- (b) A deduction is allowed for a donation to support sports organisations if it:
- is of M1,000 or more; and 1
 - is paid to the Lesotho Sports and Recreation Commission who then distribute it to on to the relevant organisation/individual specified by the donor. 2
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(c) Corporation tax payable for the year ended 30 November 2015

	M	M	
Business income		2,800,000	½
Less: Insurance compensation		(130,000)	½
		<u>2,670,000</u>	
Gain on deemed disposal of business asset (130,000 – 105,000)		25,000	1
Less: Business expenses			
Approved training expenditure (25,000*1·25)	31,250		1½
Managing director’s training costs	60,000		½
Entertainment expenses (24,300*50%)	12,150		1
Fringe benefit tax (8,500*0·30/0·70)	3,643		1
Advertising (140,000 – 10,000)	130,000		1
Depreciation allowance (105,000*25%*5/12)	10,938		1½
Miscellaneous expenses	800,000		½
		<u>(1,047,981)</u>	
		1,647,019	
Property income:			
Interest from local financial institutions (54,000/0·90)		60,000	1
Dividends from non-resident companies		82,000	½
		<u>1,789,019</u>	
Total chargeable income		1,789,019	
Tax payable (1,789,019*25%)		<u>447,255</u>	½
			<u>11</u>
			<u>15</u>