

Fundamentals Level – Skills Module

# Taxation (Lesotho)

Tuesday 3 December 2013



**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 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 M48,744	22%
Over M48,744	35%
Personal tax credit	M5,755

### 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%

### Fifth Schedule

#### Minimum chargeable income

The multiplication factors are:

Air travel	100%
Electricity amount	100%
Principal – residence amount	5%
Schooling amount	100%
Secondary home amount	5%
Vehicle amount	25%

The amounts specified are:

Air travel	M2,500
Electricity amount	M3,000
Principal – residence amount	M150,000
Schooling amount	M1,000
Secondary home amount	M20,000
Vehicle amount	M20,000

**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) rates**

Standard rate	14%
Supplies of electricity and telephone calls	5%
Basic foods and agricultural inputs	0%
Exports	0%

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Question 1 begins on page 5.**

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

- 1** JAK Consultancy is a resident partnership which has been in operation for the past 15 years. The partnership is owned by Jacob, Amanda and Kenny. Jacob and Amanda are residents while Kenny is a resident non-resident. The partners have always shared profits and losses equally, after deducting an annual salary of M50,000 for each partner.

On 31 December 2012, Kenny informed his colleagues that he intended to retire from the partnership due to ill health. The partners agreed to dissolve the existing partnership on 31 March 2013.

Jacob and Amanda decided to continue with the existing business under new terms. From 1 April 2013, profits and losses are to be shared 55% to Jacob and 45% to Amanda. No salaries will be paid.

On 31 March 2013, the adjusted cost base (ACB) and market values (MV) of the assets of the partnership business were as follows:

Asset	ACB M	MV M
Building premises	180,000	250,000
Vehicles	280,300	310,000
Furniture and equipment	110,000	150,000
Sundry other assets	25,000	21,000

The partnership's summarised trading results for the year ended 31 March 2013 are:

	Note	M	M
Revenue: Business income			450,900
Other income	1		25,020
Business expenses:			
Salaries	2	190,000	
Pension contributions	3	22,500	
Other operating expenses	4	60,000	
			(272,500)
Net profit			203,420

**Notes:**

- Other income relates to foreign source interest of M25,020 (gross).
- Salaries comprise the partners' salaries plus a severance payment to Kenny amounting to M40,000.
- Pension contributions comprise the 15% of partners' salaries contributed by the partnership on behalf of the partners. The partners themselves contributed a further 7%.
- Other operating expenses include the trading loss brought forward from the previous year ended 31 March 2012 of M24,600.

**Required:**

- State how the residence of a partnership is determined.** (2 marks)
- Calculate the notional chargeable income of JAK Consultancy for the year ended 31 March 2013.** (6 marks)
- Calculate the tax payable by each of the partners of JAK Consultancy for the year ended 31 March 2013.** (14 marks)
- Explain why the basis on which Jacob and Amanda decided to continue in partnership was not tax efficient.** (3 marks)

**(25 marks)**

**2** PKT Couriers Ltd is a resident company, which is engaged in the provision of courier services worldwide.

The following is the income statement of PKT Couriers Ltd for the year ended 31 October 2013:

	Note	M	M
Turnover			2,743,750
Investment income:	1		456,250
			<u>3,200,000</u>
Expenses (all attributable to business income)			
Staff costs	2	500,600	
Advertising	3	35,200	
Motor vehicles running cost	4	130,000	
Depreciation	5	525,000	
Sundry expenses (all tax deductible)		<u>41,000</u>	
			(1,231,800)
Operating profit			<u>1,968,200</u>
Provision for corporation tax	6		(485,800)
Profit after tax			<u>1,482,400</u>
Dividends paid	7		(50,200)
Transfer to reserves			<u>1,432,200</u>
Opening reserves			<u>700,000</u>
Closing reserves			<u>2,132,200</u>

**Notes:**

1. Investment income comprises the following:

	M
(i) Lesotho source dividends	25,000
(ii) Foreign source dividends (net)	260,000
Related withholding tax	78,000
(iii) Lesotho source interest (net)	30,000
(iv) Foreign source interest (net)	55,000
Related withholding tax	<u>8,250</u>
	<u>456,250</u>

- Staff costs include approved training costs in respect of two senior employees of the company. One of these employees is a Lesotho resident citizen and the other one is a non-resident. The company incurred M6,500 per person on this training, which was provided by one of the local institutions.
- Advertising includes donations to charities amounting to M4,500 and donations paid directly to local sporting associations of M3,500.
- Motor vehicle running costs include a down-payment of M12,000 relating to a delivery van acquired under a hire purchase agreement on 1 June 2013. In addition to the down-payment, the company is required to pay instalments of M1,800 per month for a period of three years. No entries have been made in the books of the company regarding these instalment payments. The cash price of the van would have been M70,000.
- Depreciation is in respect of all the company's fixed assets, details of which are as follows:
  - Adjusted cost base (ACB) on 1 November 2012

Asset	M
Furniture and equipment	600,000
Motor vehicles	<u>1,500,400</u>

- (ii) Acquisitions made during the year (other than the delivery van acquired on hire purchase (see note (4) above)):

Year ended 31 October	2012	2013
	M	M
Furniture and equipment	12,000	Nil
Motor vehicles	Nil	90,000

- (iii) Disposals in the year ended 31 October 2013

The company disposed of almost all its existing furniture and equipment in October 2013 for M606,200. New replacement equipment was not delivered or paid for until November 2013.

- (iv) The company has elected to use the pooling method of depreciation for tax purposes.

6. The provision for corporation tax includes M150,000 paid to the Lesotho Revenue Authority (LRA) during the year as tax instalments.
7. The dividends were paid on 1 August 2013. On the same date, the company redeemed 5,000 of the 12,000 shares held by one of its resident shareholders at M4.50 per share. The shares had originally been issued at M3.00 per share.

**Required:**

- (a) Calculate the depreciation allowance claimable by PKT Couriers Ltd for the year ended 31 October 2013. (4 marks)
- (b) Explain the tax treatment of the redemption of a portion of shares by a company. (2 marks)
- (c) Calculate the advance corporation tax (ACT) payable by PKT Couriers Ltd for the year ended 31 October 2013. (4 marks)
- (d) Calculate the corporation tax payable by PKT Couriers Ltd for the year ended 31 October 2013 and state the due date of payment.
- Note: You should start your computation of chargeable income with the turnover figure of M2,743,750 and list all of the further items of income and expenses referred to in the question; indicate any non-taxable or non-deductible items by the use of a zero. (18 marks)
- (e) Explain your treatment of the M3,500 donated to local sports associations (as in note (3)). (2 marks)
- (30 marks)**

- 3** Lazarus Computers Ltd is a resident company, whose core business is the sale and repair of computer equipment and accessories. The company has been in operation for the past five years but only became registered for value added tax (VAT) with effect from 1 September 2013.

The following information relates to Lazarus Corporation Ltd for the month of September 2013. All amounts are stated inclusive of VAT, where applicable.

	Note	M	M
Sales revenue	1		180,000
Sales returns	2		(20,300)
			<u>159,700</u>
Opening stock	3	45,300	
Purchases		30,000	
		<u>75,300</u>	
Closing stock		(20,500)	
Cost of sales			<u>(54,800)</u>
Gross profit			104,900
Operating expenses:			
Wages and salaries		50,600	
Rent	4	3,500	
Insurance		2,100	
Miscellaneous expenses	5	20,400	
		<u></u>	<u>(76,600)</u>
Net profit			<u>28,300</u>

**Notes:**

- The sales revenue comprises the following:
  - M172,900 received from normal sales of new computers and accessories and repairs to equipment.
  - M5,500 received from the sale of a second-hand computer. The computer had been acquired from a non-vendor at a cost of M3,900. As part of the sale, Lazarus Computers Ltd agreed to install new software to configure the computer, which had cost M700 and was held for resale. The selling price of the software, which has still to be received (and is not included in the M5,500) is M1,300.
  - A deposit of M1,600 for a laptop sold on a hire purchase agreement. The cash sales price of the laptop would have been M8,000.
- Lazarus Computers Ltd does not have any form of documentation to substantiate the sales returns.
- Opening stock consists of unsold stock acquired in the previous months as follows:

	M
May	2,465
June	9,060
July	13,390
August	20,385
	<u>45,300</u>

- The rent was payable to Nkata Holdings Pty, a resident vendor.
- Miscellaneous expenses, all of which were chargeable to VAT at the standard rate, include M1,500 for the purchase of staff refreshments.



**Required:**

- (a) Calculate the value added tax (VAT) payable by Lazarus Computers Ltd for the VAT period of September 2013. Indicate any amounts not resulting in any output VAT or input VAT by the use of a zero. (8 marks)
- (b) Explain the VAT treatment of :
- (i) the sale of the second-hand computer (note (1)(ii)); (2 marks)
  - (ii) the hire purchase sale of the laptop (note (1)(iii)); and (2 marks)
  - (iii) the sales returns (note (2)). (1 mark)
- (c) Because the Director of Lazarus Computers was not conversant with Lesotho VAT law, the company's VAT return for September 2013 was not submitted to the Lesotho Revenue Authority (LRA) until 1 November 2013.

**Required:**

State the date by which Lazarus Computers Ltd's VAT return for September 2013 should have been submitted and based on your answer to part (a) above, calculate the penalty due because of its late submission. (2 marks)

**(15 marks)**

- 4 Moiloa, a resident, has just been appointed to a position with Kao Diamonds Ltd (KDL), a resident company. He is expected to assume his duties on 1 February 2014.

The following remuneration package was offered to Moiloa by KDL:

- (1) An annual basic salary of M660,000.
- (2) Accommodation with a market value of M1,500 per month but for which KDL will only charge Moiloa M500 per month. Only senior employees of KDL are entitled to such subsidised accommodation, junior employees receive a housing allowance at the rate of 10% of their annual basic salary per month.
- (3) The use of a motor car which had cost KDL M420,000 when it was purchased in 2012. The market value of the car on 1 February 2014 is estimated to be M380,000. Moiloa will pay KDL M600 per month for the use of the car.
- (4) A motor car running costs allowance amounting to M2,500 per month.
- (5) Free meals are provided by KDL in its staff canteen. The meals are provided to all KDL's employees on equal terms. The total cost of the meals per person per annum is estimated at M4,350.
- (6) An education allowance of M4,200 per child per annum for any children between the ages of six and 21 years. This allowance is available to all KDL's employees on equal terms. However, Moiloa's children are all above 21 years, so he will not be able to take advantage of this benefit. Moiloa pays the tuition fees for two children who are at the university as they do not have bursaries.
- (7) A telephone allowance of M1,600 per month payable to Telecom Lesotho.
- (8) An approved employer superannuation fund into which employer and employee contribute M72,000 and M36,000 per annum, respectively.

Moiloa owns an up-market house built in the Maseru suburbs and a motor car which is still in good condition. He therefore made the following counter-offer to KDL:

- to take neither the accommodation nor the company car, but instead receive:
- the housing allowance on the same terms as offered to KDL's junior employees, i.e. of 10% of his annual basic salary per month; plus
- a monthly car allowance of 5% of his annual basic salary.

KDL has agreed to accept Moiloa's counter-offer on condition that Moiloa will also not be entitled to the motor car running costs allowance of M2,500 per month.

**Required:**

- (a) (i) **Based on the initial offer made by Kao Diamonds Ltd, calculate the annual amount of fringe benefits tax which would be payable in respect of the fringe benefits provided to Moiloa. Indicate any exempt items by the use of zero.** (5 marks)
- (ii) **Describe the procedure by which fringe benefits tax is paid.** (2 marks)
- (b) (i) **Calculate Moiloa's net disposable annual income under both offers.** (6 marks)
- (ii) **Advise Moiloa whether or not it was in his best interests to accept the alternative remuneration package.** (2 marks)

**(15 marks)**

- 5** Classic Furnitures Pty is a branch of a South African company, which has been in operation in Lesotho for the past two years. Classic Furnitures Pty's core business is the sale of high quality household furniture to the local market.

For the financial year ended 31 March 2012, Classic Furnitures Pty's self-assessment return disclosed a chargeable income of M450,000 and corporation tax payable of M112,500.

Following a tax audit by officers of the Lesotho Revenue Authority (LRA), it was revealed that Classic Furnitures Pty repatriates 20% of its after-tax income on an annual basis to the headquarters in South Africa. This fact had not been disclosed on its self-assessment return. An amended assessment was issued to Classic Furnitures Pty by the LRA, indicating additional tax payable. Classic Furnitures Pty is contemplating whether to lodge an objection against this additional tax.

**Required:**

- (a) List the factors used to determine whether a company is a tax resident of Lesotho and explain the basis on which Classic Furnitures Pty is considered to be tax resident.** (5 marks)
- (b) Explain why the Lesotho Revenue Authority (LRA) is justified in charging Classic Furnitures Pty to additional tax and calculate the additional tax which ought to be payable by Classic Furnitures Pty on the amended assessment.** (4 marks)
- (c) Assuming Classic Furnitures Pty decides to lodge an objection against the amended assessment, advise it on:**
  - (i) the procedure to be followed; and** (4 marks)
  - (ii) whether or not the tax in dispute must be paid.** (2 marks)

Note: All relevant time limits should be stated.

**(15 marks)**

**End of Question Paper**