Fundamentals Level - Skills Module

Taxation (Lesotho)

Thursday 8 December 2016



Time allowed: 3 hours 15 minutes

This question paper is divided into two sections:

Section A – ALL 15 questions are compulsory and MUST be attempted

Section B – ALL SIX questions are compulsory and MUST be attempted

Tax rates and allowances are on pages 2-3.

 $\label{eq:continuous} \mbox{Do NOT open this question paper until instructed by the supervisor.}$

Do NOT record any of your answers on the question paper.

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









The Association of Chartered Certified Accountants

The Lesotho Institute of Accountants

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 in Section B.

entered into by the Government of Lesotho)

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 First M54,770 Over M54,770	Rate of tax 20% 30%
Personal tax credit	M6,466
Withholding tax rates	
Payments to resident contractors	5%
Payments of interest by a resident to a resident	10%
Payments of Lesotho services contract to a non-resident	10%
Payments of international transactions	25%
(A lower withholding tax rate may apply under a double tax treaty	

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 30%

Fifth Schedule (Section 16(2)) Minimum chargeable income

The	multin	lication	factors	are.
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The multiplication factors are:	
Air travel amount	100%
Electricity amount	100%
Principal residence amount	5%
Schooling amount	100%
Secondary home amount	5%
Vehicle amount	25%
The amounts specified are:	
Air travel amount	M2,500
Electricity amount	M3,000
Principal residence amount	M150,000
Schooling amount per child	M1,000
Secondary home amount	M20,000
Vehicle amount	M20,000

Sixth Schedule (Section 41)

Declining balance depreciation rates:

Group	Depreciation rate	Assets included
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%
Supplies of electricity and telephone calls	5%
Basic foods and agricultural inputs	0%
Exports	0%

3 [P.T.O.

Section B - ALL SIX questions are compulsory and MUST be attempted

Please write your answers to all parts of these questions on the lined pages within the Candidate Answer Booklet.

1 Nava is an Indian national. For the two years from 1 September 2013 to 30 August 2015 she was employed on a contractual basis as a teacher at Maseru International School (MIS). Nava resides in Ladybrand and commuted on a daily basis to Maseru throughout the period of the contract.

Nava's entitlements as per her employment contract with MIS are as follows:

- (1) An annual basic salary of M150,000.
- (2) A housing allowance of 10% of the basic salary.
- (3) An education allowance of M7,000 per child per annum for children below 18 years. Nava has one child aged 12 years, for which she pays school fees of M12,000 per annum.
- (4) Terminal benefits totalling M77,000 on the termination of the employment contract. The terminal benefits comprise a gratuity of M62,000 and a severance payment of M15,000.

Additional information

On 25 July 2015, Nava celebrated her birthday and was given a gift valued at M2,300 by MIS. It is the policy of MIS to provide birthday gifts to all of their employees.

Required:

- (a) State, giving reasons, Nava's residence status for each of the two years ended 31 March 2016. (2 marks)
- (b) Calculate Nava's chargeable income for the year ended 31 March 2016. (5 marks)
- (c) State the circumstances in which the following items are NOT exempt for income tax purposes:
 - (i) a gift; and (2 marks)
 - (ii) a terminal benefit. (1 mark)

(10 marks)

- 2 Mokoena has been working for the Basutoland Agricultural College (BAC), a tax exempt employer, for the past three years. In addition to his annual salary of M1,122,000, Mokoena was entitled to the following fringe benefits provided by his employer for the year ended 31 March 2016:
 - (1) A fully furnished house owned by his employer and provided to Mokoena free of charge. The market rental of a similar house is M12,300 per month.
 - (2) Use of a motor car which cost BAC M600,000 in 2012. The motor car was provided to Mokoena in 2013 when Mokoena was appointed to his current position, at which time the market value of the motor car was M540,000. The current market value of the motor car is M360,000.
 - (3) Provision of a chauffeur and a bodyguard. BAC spends a total of M11,700 per month on the salaries for these two assistants to Mokoena: M8,500 for the chauffeur and M3,200 for the bodyguard.
 - (4) An interest free loan of M80,000 made to Mokoena on 1 April 2015 so he could attend an annual conference overseas. BAC waived 50% of this loan on 30 March 2016. The interest rate of the Central Bank of Lesotho averaged 18% throughout the year.
 - (5) An annual superannuation fund contribution of M235,000 made on behalf of Mokoena by BAC to an approved employer superannuation fund.

Required:

- (a) Calculate the annual fringe benefits tax (FBT) payable by Basutoland Agricultural College (BAC) in respect of the fringe benefits provided to Mokoena for the year ended 31 March 2016. Identify by the use of a zero (0) any items which are exempt for FBT purposes.
- (b) State, how Mokoena's tax position would change if BAC was a public international organisation (PIO).

Note: Calculations are NOT required for part (b). (2 marks)

(10 marks)

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- **3** Kopano Enterprises Pty (KEP), a local vendor trades in building materials. KEP's value added tax (VAT) related transactions for the month of November 2016 are as follows. All amounts are inclusive of VAT where appropriate.
 - (1) Sales invoiced to customers of M130,400.
 - (2) Credit notes for M2,400 issued in respect of goods returned by customers during the month.
 - (3) A bad debt recovered to the value of M5,000. The debt related to credit sales of M12,000 made in September 2014 and for which the related output VAT of M1,474 was correctly declared to the Lesotho Revenue Authority (LRA). The debt was written off in the books of KEP in December 2015.
 - (4) Stock purchased for resale amounting to M92,500.
 - (5) Rent of M4,500 paid to a vendor.
 - (6) Repairs totalling M6,500 for one of KEP's delivery trucks comprising the following:
 - a labour charge of M2,500 payable to a non-vendor; and
 - M4,000 for spare parts purchased from a vendor.
 - (7) Payments for utilities of M3,200 in respect of water consumption; and M3,400 in respect of electricity.

Required:

(a) Calculate the value added tax (VAT) payable by Kopano Enterprises Pty (KEP), for the month of November 2015.

Note: You should list all of the items referred to in the question, indicating by the use of zero (0) any which are exempt, zero rated or disallowed. (7 marks)

(b) State, giving reasons, in which tax period KEP was eligible to claim an input tax credit in respect of the debt written off in December 2015. (3 marks)

(10 marks)

4 Maja, aged 65 years, who has been operating as a successful entrepreneur for the past 30 years, intends to retire and to this end decided to sell some of his assets. Following a professional valuation, the following assets were sold at their market value in February 2016:

Asset	Note	Date acquired/ constructed	Original cost	Market value February 2016
			M	M
Unimproved land	1	September 1996	38,000	120,000
Building premises	2	November 2001	260,000	1,500,000
Boundary wall		December 2009	85,000	180,000
Office equipment	3	June 2013	55,600	30,000
Private saloon car		November 2014	230,000	210,000

Notes:

- 1. The land was acquired from Maja's cousin at a negotiated price. The market value of the land on the date of acquisition was M45,000. Maja had planned to use the land for other business ventures but never did so.
- 2. The cost of M260,000 relates solely to the cost of construction of the original building premises in 2001. These building premises were constructed on land which Maja had inherited from his late father in July 1999. The market value of the land at the date of transfer was M25,000. In May 2015, Maja renovated the building premises, incurring a total cost of M180,000, comprising M160,000 for the cost of an extension to the building and M20,000 for repairs to the roof.
- 3. The adjusted cost base (ACB) of the office equipment on the date of sale amounted to M22,500.

Other relevant information

The estate agent charged Maja commission of M5,000 in respect of the entire sale of assets.

Required:

Calculate the chargeable gains and/or chargeable business income arising on the sale of assets by Maja in February 2016.

Notes:

- 1. You should list all of the assets/expenditures referred to in the question, indicating by the use of zero (0) any which are not chargeable/allowable.
- 2. The indexation numbers on relevant dates are:

September 1996	180
July 1999	185
November 2001	210
December 2009	218
June 2013	280
November 2014	310
May 2015	312
February 2016	315

(10 marks)

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Makume is a resident individual. He operates a building construction business and in addition, has a property which is rented out. The following are Makume's trading results for the year ended 31 March 2016:

	Note	M
Income		
Construction (including 5% withholding tax)		350,000
Rentals		120,000
Expenses	1	
Wages and salaries		196,000
Employer superannuation fund contributions	2	40,000
Repairs and maintenance	3	28,400
Insurance premiums	4	12,500
Hire purchase instalments	5	22,500
Depreciation	6	96,380

Notes:

- 1. All of the expenses relate to the construction business except for part of the repairs and maintenance expense (see (3) below).
- 2. Makume has a non-contributory employer superannuation fund for his permanent employees only. Makume currently has two permanent employees, each earning an annual salary of M85,000.
- 3. The repairs and maintenance expense includes M8,200 for repairs to Makume's rented property.
- 4. 60% of the insurance premium expense was paid to Avow Insurers, a South African insurance company.
- 5. The hire purchase instalments were paid in respect of some additional equipment acquired on 1 November 2015. Makume paid an initial deposit of M4,500, and agreed to pay 24 monthly instalments of M2,250 each, starting from the end of November 2015. The interest is calculated on the straight line basis. The market value of the equipment was M45,000. No further record was made in the business' books in regard to this equipment.
- 6. The depreciation charge relates to all the depreciable assets held by Makume on 1 April 2015 and was calculated in accordance with the relevant income tax provisions. The adjusted cost bases (ACB) of the depreciable assets on 1 April 2015 and depreciation allowances for the year ended 31 March 2016 were:

	Equipment M	Vehicles M	Totals M
ACB	144,400	270,000	414,400
Depreciation allowance	28,880	67.500	96.380

Required:

(a) Calculate the income tax payable by Makume for the year ended 31 March 2016. (12 marks)

(b) Briefly explain the tax treatment of the trading loss incurred by Makume in the year ended 31 March 2016. (2 marks)

(c) State by when Makume must file his tax return for the year ended 31 March 2016. (1 mark)

(15 marks)

6 River-Side Manufacturers Pty (RSM) is a resident company, engaged in the manufacture of textiles for both the local and international markets.

The following are the summarised trading results of RSM for the year ended 31 March 2016:

	Note	M
Sales revenue		
Local sales		420,000
Export sales	1	479,000
Other income		
Gross dividend received from RSM's subsidiary in Bethlehem (South Africa)	2	38,000
Net interest received from Nedbank Lesotho		18,900
Operating expenses (all attributable to the manufacturing operations)		
Staff costs	3	350,000
Legal and professional fees	4	43,100
Advertising and promotion	5	32,000
Interest payable	6	29,500
Sundry expenses (all tax deductible)		110,000

Notes:

- 1. Export sales revenue is stated after deduction of foreign withholding tax paid of M265,500.
- 2. The dividend received includes the foreign withholding tax paid in South Africa of M5,700.
- 3. Staff costs include:

	Entertainment of steff	M
	Entertainment of staff	8,300
	Training expenses for staff who are resident in Lesotho	5,700
	Training expenses for staff who are non-residents	2,300
4.	Legal and professional fees comprise:	
		M
	Accounting and professional fees	41,600
	Non-compliance fines	1,500
		43,100
5.	Advertising and promotion include donations to:	
		M
	A church youth choir	1,000
	An orphanage	2,000
	A soccer team (made through the approved tax procedures)	1,500

6. The interest is payable on long term debt of M550,000. RSM's equity capital is M120,000.

Required:

Calculate the corporation tax payable by River-Side Manufacturers Pty for the year ended 31 March 2016.

(15 marks)

End of Question Paper