

Fundamentals Level – Skills Module

Taxation (Lesotho)

Thursday 9 June 2016



Time allowed

Reading and planning: 15 minutes

Writing: 3 hours

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.

Do NOT open this question 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.

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

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

Paper F6 (LSO)

Think Ahead



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.

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 M54,770	20%
Over M54,770	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 entered into by the Government of Lesotho)	

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 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%

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** Mohokare Tiles Manufactures Pty, a resident company trading as MTM, specialises in the manufacture of ceramic tiles. In addition, MTM operates a retail outlet selling bathroom ware and laminated flooring.

During the year of assessment ended 31 March 2016, MTM made the following payments:

- (i) A payment of M15,700 to Mooki Carpenters, a resident company which was contracted to replace some fixtures and fittings in various units within MTM's premises.
- (ii) Annual lease rentals amounting to M82,300 payable to a South African company, in respect of some of the machinery used in MTM's manufacturing process.
- (iii) Audit fees of M46,000 payable to Lousier Chartered Accountants, a South African audit firm which is located in Ficksburg, near to the border-gate between Lesotho and South Africa. Lousier Chartered Accountants audits a large number of clients in Lesotho.
- (iv) The following payments made to MTM's parent company, which is based in China:

	M
– Management fees	54,000
– Dividends	120,000

80% of the dividends were paid out of MTM's manufacturing income.

Required:

- (a) Calculate the withholding tax which should be remitted by Mohokare Tiles Manufactures Pty to the Lesotho Revenue Authority (LRA) for each of the payments in items (i) to (iv) above. Give a brief explanation of any payment(s) which are not subject to withholding tax. (7 marks)
- (b) State the FOUR types of information which need to be recorded and kept for inspection by the LRA in respect of withholding taxes. (2 marks)
- (c) State the income tax rate which would be applicable on the chargeable income of Lousier Chartered Accountants (as in (iii) above) if it elects to be taxed by assessment. (1 mark)

(10 marks)

- 2** Joseph, a Zambian national, is an expatriate taxpayer. He is employed as a technical adviser for Soli Limited, a resident company. For the past five years, Joseph has been based in Botswana, where the head office of Soli Limited is located. On 1 April 2015, Joseph was relocated to Soli Limited's office in Lesotho.

The following are the payments and benefits provided to Joseph by Soli Limited for the year ended 31 March 2016:

- (i) A basic salary of M786,000.
- (ii) A reimbursement of M4,500 in relation to the relocation expenses from Botswana to Lesotho incurred by Joseph. It is Soli Limited's policy to provide this benefit to all expatriate employees at the commencement and termination of their employment contracts.
- (iii) A fully furnished rented apartment located in Mpilo Estates in Maseru. Soli Limited pays a monthly rent of M8,500 on behalf of Joseph, while Joseph pays Soli Limited M1,500 per month for the use of the apartment.
- (iv) A diesel powered motor car whose market value was M520,000 when it was acquired by Soli Limited in May 2014. The market value of the car on 1 April 2015, when it was first provided to Joseph, was M490,000.
- (v) An interest-free loan of M30,000 made to Joseph on 1 April 2015, to assist him to purchase a home theatre, payable over a period of 12 months. The Central Bank interest rate averaged 18% throughout the year ended 31 March 2016.
- (vi) A medical aid scheme contribution of M14,400. This benefit is available to all of Soli Limited's employees on equal terms.
- (vii) Utilities to the value of M15,200 payable directly to the various utility service providers.

Required:

- (a) Define 'an expatriate taxpayer' for income tax purposes.** (2 marks)
- (b) Calculate the fringe benefits tax (FBT) payable by Soli Limited in respect of the benefits provided to Joseph for the year ended 31 March 2016, and state the due date of submission of the first quarter's FBT return.** (5 marks)
- (c) Calculate the total allowable expenses claimable by Soli Limited in respect of the benefits provided to Joseph for the year ended 31 March 2016.** (3 marks)

(10 marks)

- 3** Pheko, a vendor, operates a panel-beating workshop in Mafeteng District. He is a tax compliant vendor and accounts for value added tax (VAT) on a cash basis.

During the month of April 2016, Pheko carried out the following VAT related transactions (all amounts are inclusive of VAT, where applicable):

	Note	M
Revenue	1	85,000
Costs:		
Spray paints	2	25,000
Subcontractor fees	3	7,000
Rent	4	4,500
Utilities	5	3,600
Bank overdraft interest		800
Entertainment of staff		250

Notes:

- Revenue comprises invoices issued to customers which included the following:
 - An invoice for M12,500, which was not settled until May 2016.
 - A negotiated receipt of M450 from one of Pheko's relatives for the repair of a motor car door. The normal price for a similar service rendered would be M620.
- Pheko paid only 50% of the invoice value of the spray paints in April 2016. The balance was paid in May 2016.
- The subcontractor fees are payable to a mechanic, who assists with all mechanical problems regarding the motor cars attended to at the workshop. The mechanic is also a vendor.
- The rent is payable to a local vendor for a building of 420 square metres in total. Pheko uses 300 square metres of the building as a workshop and the remaining 120 square metres is occupied as a residence by Pheko and his entire family.
- Utilities which relate to the entire building (workshop and residential) comprise the following:

	M
Water	1,200
Electricity	2,400

Required:

- State the conditions necessary for a vendor to be eligible to use the cash basis method of accounting for value added tax (VAT).** (2 marks)
- Calculate the VAT payable by or refundable to Pheko by the Lesotho Revenue Authority (LRA) for the month of April 2016 and state the due date of submission of the VAT return.**

Note: Your computations should list all of the items referred to in the question, identifying by the use of zero (0) any items which are exempt or disallowed for VAT purposes. (8 marks)

(10 marks)

4 Lefa entered into the following transactions in relation to his investment assets during the year ended March 2016:

- (i) In May 2015, he sold 3,500 shares in Josh Pty, a South African listed company, for their market price of M875,000. The shares were part of a holding of 5,000 shares which Lefa had inherited from his late father in July 2004. Lefa's father had purchased the shares for M50 per share and their market value when they were transferred to Lefa was M80 per share.
- (ii) In February 2016, Lefa sold premises which are rented out to various business merchants for M2,800,000. Legal and administrative expenses associated with the sale amounted to M12,000. Lefa had purchased the premises in November 1999 at a total cost of M810,000.

In October 2009, Lefa renovated the entire premises at a cost of M285,000 which comprised the following:

	M
Extension of three of the business units	210,000
Replacing the electric wiring	70,000
Repairs to locks and painting of walls	5,000

In August 2015, Lefa built a security wall surrounding the whole compound of the premises at a cost of M35,000.

Required:

- (a) Calculate Lefa's total chargeable gains for the year ended 31 March 2016, giving a brief explanation for any amounts excluded from your computation.

Note: Relevant price indices are as follows:

November 1999	120
July 2004	170
October 2009	280
May 2015	300
August 2015	310
February 2016	340

(7 marks)

- (b) State the THREE circumstances in which neither a gain nor a loss is recognised for tax purposes on the disposal of an investment asset.

(3 marks)

(10 marks)

- 5 Paul, a resident individual, has been operating a successful supermarket in partnership with Moses, a resident non-resident, for more than 15 years, sharing the business profits and losses equally. In December 2015, Moses informed Paul that he wished to retire from the partnership for personal reasons. The partners agreed to dissolve their partnership on 31 March 2016. All of the partnership assets were disposed of at their market values on the date of dissolution as set out below:

	Adjusted cost base (ACB)	Market value
	M	M
Business vehicles	2,100,000	2,300,000
Furniture and equipment	340,000	300,000

The trading results of the partnership for the year ended 31 March 2016 are as follows:

	Note	M
Revenue: Business income		1,500,000
Other revenue	1	34,400
Business expenses:		
Salaries	2	420,500
Pension contributions	3	54,000
Interest on capital	4	12,000
Sundry expenses	5	120,000

Notes:

- Other revenue which is stated net of withholding tax relates to interest received from fixed deposit bank accounts held outside Lesotho. The foreign withholding tax paid amounted to M7,912.
- Salaries comprise M126,250 payable to each of the partners and a total of M168,000 paid to the other employees of the partnership.
- The partnership contributes M27,000 to a complying pension fund for each of the partners annually. Each partner contributes M9,600 per year to the same fund.
- The partners are entitled to annual interest of 20% on their initial capital contribution of M30,000 each.
- Sundry expenses include the following:
 - An annuity of M8,000 payable to a former employee who was injured while on duty.
 - A trading loss of M23,200 brought forward from the previous financial period.

Required:

- Calculate the notional chargeable income of the partnership for the year ended 31 March 2016.** (8 marks)
- Calculate the chargeable income of each of the partners, Paul and Moses, for the year ended 31 March 2016.** (6 marks)
- State how the residence of a partnership is determined.** (1 mark)

(15 marks)

- 6 Bantu Construction Pty (BCP) is a resident company which specialises in civil and structural engineering. The company uses a substituted accounting period ending on 30 November annually.

The following financial information relates to BCP for the year ended 30 November 2015:

	Notes	M
Business income	1	2,800,000
Interest from local financial institutions (net)		54,000
Dividends from non-resident companies	2	82,000
Business expenses:		
Training expenses	3	85,000
Entertainment expenses	4	24,300
Advertising and promotion expenses	5	140,000
Miscellaneous expenses (all tax deductible)		800,000

Notes:

1. The business income includes insurance compensation of M130,000 received with regard to one of the company's delivery vans (light purpose) which was involved in an accident during the year, and destroyed beyond repair. The adjusted cost base (ACB) of the delivery van when the accident occurred was M115,000. BCP purchased another delivery van at a cost of M105,000 on 1 July 2015. There is no further record in BCP's books in respect of the replacement of the destroyed delivery van.
2. The dividends from non-resident companies are stated inclusive of the foreign withholding tax paid of M25,500.
3. Training expenses comprise the following:
 - M25,000 paid to a local institution in respect of the training of some of BCP's support staff during the year; and
 - M60,000 for a training course delivered overseas, which was attended by the managing director.
4. Entertainment expenses comprise the following:
 - M12,600 incurred on the staff Christmas party in December 2014;
 - M3,200 for entertaining prospective clients; and
 - M8,500 paid for dinners provided to the senior management team.

On the last Friday of every month, the senior management team is entitled to have dinner at any luxurious suite of their choice.
5. Advertising and promotion expenses include the following:
 - M10,000 donated to a local orphanage; and
 - M5,000 donated to one of the local soccer teams, and paid in accordance with the relevant income tax provisions.

Required:

- (a) State the condition to be met for a company to use a substituted accounting period. (1 mark)
- (b) State the conditions which needed to be met for the donation to the local soccer teams (item 5) to be tax deductible. (3 marks)
- (c) Calculate the tax payable by Bantu Construction Pty for the year ended 30 November 2015. (11 marks)

(15 marks)

End of Question Paper