

Fundamentals Level – Skills Module

Taxation (Lesotho)

Thursday 7 December 2017



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.

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.

Paper F6 (LSO)

Think Ahead

ACCA



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 M56,964	20%
Over M56,964	30%
Personal tax credit	M6,732

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%

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	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 Mpiti, an individual resident in Lesotho, established a trust fund in 2012.

In June 2014, Mpiti died and his will provided the following information:

- Mpiti's wife, 'Makananelo, should become a trustee of the trust set up in 2012 and will be entitled to 65% of the trust income.
- Mpiti's only child, Kananelo, will also be a beneficiary of the trust income, and entitled to the remaining 35% of the trust income.

The trust income for the years ended 31 March 2016 and 2017 is as follows:

	2016 M	2017 M
Lesotho source	140,000	201,000
Foreign source – trading income (see below)	52,000	65,000
	<u>192,000</u>	<u>266,000</u>

The foreign source trust income of M52,000 for the year ended 31 March 2016 is before taking into account a trading loss of M25,000 realised in the same trade in the previous year ended 31 March 2015.

Required:

(a) Calculate the tax payable by the trustee ('Makananelo) for the years ended 31 March 2016 and 2017 respectively.

Note: You should assume that the same tax rates and allowances were applicable throughout the years ended 31 March 2016 and 2017. (6 marks)

(b) Calculate the tax payable by the beneficiary (Kananelo) for the year ended 31 March 2017. (2 marks)

(c) State any two conditions which should be satisfied for the trustee to be chargeable to tax on the trust's foreign source income. (2 marks)

(10 marks)

- 2 Leseli Motors, a local vendor, buys and sells used cars and spare parts. Due to stiff competition in the industry, Leseli Motors incurred losses in the last three years and is now contemplating deregistering for value added tax (VAT) purposes.

The following information was extracted from the books of Leseli Motors, for the tax period ended 31 October 2017

	Note	M
Revenue	1	63,000
Operating expenses (taxable at standard rate where applicable)	2	68,000
Operating loss		<u>(5,500)</u>

All amounts are inclusive of value added tax (VAT) where appropriate.

Notes:

- (1) The revenue figure comprises the following:
- (i) M45,000 in respect of the sale of a saloon car 1. The car cost Leseli Motors M34,000 and was originally acquired from a non-vendor. Leseli Motors incurred repair expenses of M6,000 to put the car into a saleable condition, of which 25% were paid to a non-vendor.
 - (ii) A monthly instalment of M3,500 in respect of a saloon car 2 which was sold on a deferred payment basis. The market value of the car on the date of sale was M42,000. The instalments are payable over a period of 12 months, commencing on 31 October 2017.
 - (iii) Operating lease payments of M2,300 in respect of a delivery truck. The lease contract states that Leseli Motors will receive monthly payments of M2,300 over a six-month period starting from 1 October 2017.
 - (iv) M12,200 in respect of the sale of spare parts to a sister company. This amount is below the fair market value of the parts by M3,000.
- (2) The operating expenses figure includes an insurance premium of M3,200.

Required:

- (a) Calculate the VAT payable by or refundable to Leseli Motors for the tax period ended 31 October 2017 and state the due date for the submission of the VAT return.

Note: Itemise all revenue and expenditure items and indicate those which do not result in VAT payable or reclaimable by the use of a zero (0). (8 marks)

- (b) State the obligation of a vendor to the Lesotho Revenue Authority (LRA) when deregistering from value added tax. (1 mark)

- (c) Comment on whether Leseli Motors would be entitled to apply for deregistration. (1 mark)

(10 marks)

- 3** Lerotholi was recently diagnosed with a terminal disease and due to his ill health, he liquidated some of his assets to cover his medical expenses.

The following assets were sold at their market values on 31 March 2017:

	Cost	Market values
	M	M
Shares	150,000	290,000
Factory building (see below)	515,000	2,300,000

The cost of the factory building comprises the following:

- (1) M25,000 for the land on which the building was erected. The market value of the land at the date of purchase was M35,000 but Lerotholi purchased the land from a business associate at a reduced price in December 2005.
- (2) M320,000 for the construction of the factory building in September 2008.
- (3) M85,000 for building a security wall around the factory building which was completed in July 2012.
- (4) M20,000 for paving the entire compound of the factory building in June 2016.
- (5) M65,000 on 31 March 2017 for equipment and surveillance cameras installed in the building. This amount represents the total adjusted cost base (ACB).

Other relevant information:

- (1) The trading results of Lerotholi for the year of assessment ended 31 March 2016 showed a loss totalling M36,000, of which M5,500 related to the sale of some shares held in a local company, and M30,500 related to his trading operations.
- (2) Lerotholi incurred estate agent fees of M4,500 in respect of the sale of the factory building.
- (3) The indexation numbers on the relevant dates are:

December 2005	215
September 2008	245
July 2012	270
June 2016	310
March 2017	320

Required:

- (a) **Calculate the chargeable gain and/or chargeable business income arising on the sale of assets by Lerotholi for the year ended 31 March 2017.** (7 marks)
- (b) **State ANY THREE examples where neither a gain nor a loss is recognised for tax purposes on disposal of an investment asset.** (3 marks)

(10 marks)

- 4 Thomas, an expatriate taxpayer, is working as a country director for the World Health Organisation (WHO), a public international organisation (PIO).

His remuneration package for the year ended 31 March 2017 consisted of the following:

- (1) A basic salary of M420,000 per annum.
- (2) A fully furnished rented accommodation paid for by Thomas's employer which cost M8,500 per month. Thomas contributes M1,000 per month towards the provision of this benefit.
- (3) A motor car which is used for both business and private purposes. The market value of the car was M310,000 when it was provided to Thomas in February 2015.
- (4) An education allowance of M10,500 per annum per child for each of Thomas's two sons.
- (5) A non-contributory pension fund into which Thomas's employer contributes M10,200 per month on Thomas's behalf.
- (6) Expenses paid by Thomas's employer which total M28,200 per annum for the following:

	M
Security guard	13,300
Mobile phone bill	14,900
	<hr/>
	28,200
	<hr/>

Required:

- (a) Calculate Thomas' chargeable employment income for the year ended 31 March 2017. Identify by the use of a zero (0) any item(s) which are exempt. (4 marks)
- (b) Calculate the fringe benefits tax (FBT) payable in respect of the fringe benefits provided to Thomas by the WHO for the year ended 31 March 2017, assuming the WHO is a tax exempt employer. (6 marks)

(10 marks)

- 5 Lefa and Brian run a business in partnership sharing profits and losses equally. Lefa is a resident partner and Brian is a resident non-resident partner.

The partnership operating profit for the year ended 31 March 2017 was M197,250 after taking the following items into account:

	M	M
Income		
Gross profit		561,250
Net interest from local banks		38,880
Gross income from foreign banks (withholding tax amounts to M3,500)		21,120
		<u>621,250</u>
Expenses		
Salaries: Lefa	75,000	
Brian	<u>75,000</u>	150,000
Employer superannuation fund contributions:		
Lefa	22,500	
Brian	<u>22,500</u>	45,000
Depreciation		85,750
Trading loss brought forward		18,250
Miscellaneous expenses (all tax deductible)		125,000
		<u>424,000</u>

Additional information:

The fixed asset register of the partnership as at 31 March 2017 reflects the following information:

Assets	Acquisition date	Cost M	Rate	Depreciation M
Buildings	1 February 2014	397,500	10%	39,750
Vehicle	1 August 2014	120,000	30%	36,000
Office equipment	1 February 2016	40,000	25%	10,000
				<u>85,750</u>

Required:

- (a) Calculate the notional chargeable income of the partnership for the year ended 31 March 2017.

Note: You should start your calculations with the partnership operating profit of M197,250. (6 marks)

- (b) Calculate the tax payable by each of the partners for the year ended 31 March 2017 and state the due date of payment of the tax liability.

Note: Indicate by the use of a zero ('0') any items which are not taxable or not allowable. (9 marks)

(15 marks)

- 6 PP Securities (PPS) is a wholly owned subsidiary of a South African company, was incorporated in Lesotho in March 2016, and commenced its operations in Lesotho in October 2016. PPS's year end date is 30 November, which is close to but not the same as that of its holding company in South Africa. For consistency, the company is planning to use 30 November as its substituted accounting period.

The following is the summarised financial information of PPS for the year ended 30 November 2016:

	Note	M
Revenue		
Trading income		430,000
Investment income	1	120,000
		<u>550,000</u>
Expenses		
Administrative expenses	2	205,000
Selling and distribution costs	3	180,000
		<u>385,000</u>

Notes:

- Investment income includes the following:
 - M42,000 dividends received from a local company.
 - M85,000 dividends (gross) received from the foreign companies. The related foreign withholding tax is M22,500.
- Administrative expenses include the following:
 - Repairs and maintenance of the company's vehicles for M94,000. Included in this amount is M72,000 for the purchase of equipment on 1 June 2016. No further record was made in the books of the company regarding this purchase.
 - Provision for directors' emoluments of M60,000.
- Selling and distribution costs comprises the following:
 - Marketing and advertising costs of M150,000. Included in this amount is M110,000 in relation to large scale advertising which was incurred prior to commencement of operations of the company.
 - Donations of M30,000 in total, 45% of which was donated to one of the local orphanages. The remaining 55% was extended to one of the local soccer teams and paid in accordance with the relevant income tax provisions.

Relevant information:

On 30 September 2016, PPS paid dividends of M74,000 to its shareholders. The dividends were paid entirely out of unqualified income.

Required:

- Advise PP Securities on the procedure it should follow to use a substituted accounting period and the grounds it has for using a substituted accounting period.** (2 marks)
- Explain how PP Securities qualifies as a resident company.** (3 marks)
- Calculate the advance corporation tax payable (ACT) by PP Securities in respect of the dividends paid on 30 September 2016 and state the due date of payment.** (2 marks)
- Calculate the corporation tax payable by PP Securities for the year ended 30 November 2016.** (8 marks)

(15 marks)

End of Question Paper