Answers

Fundamentals Level – Skills Module, Paper F6 (LSO) Taxation (Lesotho)

Marks

1 Mr Mphofu

(a) Tax payable by Mr Mphofu for the year ended 31 March 2011

	Μ	Μ	
Employment income:			
Basic salary (34,500*10)	345,000		1
Housing allowance (3,450*10)	34,500		1
Car allowance (12,000*10/12) Entertainment allowance (800*10)	10,000 8,000		1 1
Birthday present	900		1/2
Reimbursements	500		12
Water and electricity (taxable fringe benefit)	0		1/2
Security guard (exempt fringe benefit)	0		1/2
Cell phone usage bill (taxable fringe benefit)	0		1/2
Free meals (taxable fringe benefit)	0		1/2
	398,400		
Less: contributions to employer superannuation fund	(5,000)		1
		202.400	-
Business income:		393,400	
Revenue	174,000		1/2
Less expenses:	174,000		12
Rent	(30,000)		1/2
Salaries (55,500 + 47,200)	(102,700)		1/2
Pension contribution (15%*102,700)	(15,405)		1/2
FBT ((70,000*15%)*0·35/0·65)	(5,654)		1
Other sundry expenses (47,500 – (4,500*40%))	(45,700)		1
Trading loss	(25,459)		
Chargeable income	·	393,400	1/2
			12
Tax payable:		0.001	1 /
40,368*22%		8,881	1/2
353,032*35%		123,561	1/2
		132,442	
Less: personal tax credit		(5,000)	1/2
Tax liability		127,442	
Less: withholding tax (PAYE)		(103,400)	1/2
Tax payable		24,042	14

Tutorial note: Trading loss of M25,459 cannot be set off against employment income, it will be carried forward and set off against business income in the following year of assessment.

(b) Withholding tax remitted by Mr Mphofu

Managar.		
Manager:	М	
Basic salary	55,500	1/2
Less pension fund contributions (55,500*5%)	(2,775)	1
	52,725	
Tax payable:		
40,368*22%	8,881	1/2
12,357*35%	4,325	1/2
,	13,206	
Less personal tax credit	(5,000)	1/2
	8,206	12
	0,200	
Assistant manager:		
Basic salary	47,200	1/2
Less pension fund contributions (47,200*5%)	(2,360)	1
	44,840	
Tax payable:		
40,368*22%	8,881	1/2
4,472*35%	1,565	1/2
	10,446	
Less personal tax credit	(5,000)	1/2
	5,446	
Total tax remitted (8,206 + 5,446)	13,652	
Payable within 15 days following the end of the month of deduction.		1
, , ,		7
		/
Fringe benefits tax (FBT)		
	М	

Utilities fringe benefits:		
Water and electricity (8,400*10/12)	7,000	1
Cell phone usage bill (700*10)	7,000	1
Meals and refreshments (1,400*10)	14,000	1
Taxable value	28,000	
Taxable amount (28,000/0·65)	43,077	1/2
FBT (43,077*35%)	15,077	1/2
		4
		25

2 GUT

(c)

(a) Income tax instalments for the year ended 31 December 2011

Tax payable for the year ended 31 December 2010 Less: withholding taxes	M 31,300 (8,500) 22,800	¹ / ₂ 1
Each instalment (22,800*30%)	6,840	¹ / ₂ 2

Marks

(b) Utilisation of ACT

Marks

	 Set off against instalments of tax Set off against corporation tax liability net of instalments paid Set off against value added tax (VAT) liability Carried forward and set off against instalments of tax due, corporation tax liability and VAT liability in subsequent year(s) of assessment. 	$\begin{array}{c}1\\1\\1\\-1\\-4\end{array}$
(c)	Т	
	vidends paid on 30 November 2011 54,000	

ACT ((54,000 – 7,500)*25/75) Less instalments paid up (6,840*2)	15,500 1 13,680 1
ACT payable	1,820
Payable on or before 7 December 2011.	_1
	3

Tutorial note: ACT payable on 7 December 2011 will be satisfied by the two instalments paid up to 30 September 2011. The last instalment will be paid on 31 December 2011, which is after the due date.

(d) Corporation tax payable for the year ended 31 December 2011

Business income (W1) Less: administrative expenses (W2)	M 435,900 (192,400)
	243,500
Property income	
Interest: Local (31,950*100/90)	35,500 1
Foreign	42,300 1
Dividends: Local (exempt)	
Foreign	20,700 1 22,060 1 ¹ / ₂
Gain from disposal of shares (32,600 – (1,700*6·20)	
	120,560
Chargeable income	364,060
Tax payable at 25%	91,015 1
Less: Foreign tax credit (see workings)	(12,175)
Local withholding taxes on:	
 Interest (35,500 – 31,950) 	(3,550) 1
– Business income (260,000 – 247,000)	(13,000) 1
 Instalments paid (6,840*3) 	(20,520) 1 ¹ / ₂
Net tax payable	41,770
Payable on or before 31 March 2012.	1
Workings:	
1. Business income	
	М
Income from private entities and accounting profit on disposal	170,800 1
Income from Government (247,000*100/95)	260,000 1
Less accounting profit on disposal	(10,800) 1
	420,000
Add tax profit on disposal (80,500 – 64,600)	15,900 1
	·
	435,900

2. Administrative expenses

	М	
Total incurred	230,500	1/2
Less disallowed expenses:		
Legal fees (disallowed)	(24,800)	1
Annuity payment (14,500 – 1,200)	(13,300)	1
	192,400	
Tutorial note: The maximum allowable deduction for annuity payment is M1,200.		
Foreign tax credit		

Foreign income	ax rate (91,015/364 Amount	Foreign tax paid	Lesotho tax at 25%	Credit available	
Interest	42,300	12,400	10,575	10,575	1
Dividends	20,700	1,600	5,175	1,600	1
				12,175	21
					30

Tutorial note: Average rate of withholding tax is compared to the average rate of Lesotho tax, and restricted to lower amount.

3 CompuTech Pty – Value added tax (VAT)

(a)	The VAT remitted to the LRA is claimable in the March 2012 tax period.	1
	This is because credit arises on the later of the date on which the debt was written off in the accounts of a vendor; or	1
	in the case of a debt outstanding but not written off, 12 months after the end of a tax period in which VAT was paid to the LRA in respect of a supply to a customer.	1
		3

(b) Input VAT

3.

	Μ	
Purchases (42,300 ^{*14} / ₁₁₄)	5,195	1
Rent $(5,500^{14}/_{114})$	675	1
Furniture and fittings ((12,600 – 600) $^{14}/_{114}$)	1,474	1
(600*14/114) excluded – paid to non-vendor	0	1
Electricity (1,500* ⁵ / ₁₀₅)	71	1
Water consumption (exempt)	0	1
Bad debts relief $(6,500^{14}/_{114})$	798	1
Sundry expenses $(14,400*14/_{114})$	1,768	1
	9,981	

Tutorial notes:

1. Bad debt relief is available for CompuTech Pty as per the explanation given in (a) above.

2. If water was charged at 5% on the assumption that it was combined with sewerage, equal credit was awarded.

Output VAT

Sales (85,500* ¹⁴ / ₁₁₄) FMV of repairs understated (2,500 – 1,800)* ¹⁴ / ₁₁₄)	M 10,500 86 10,586	1 2
VAT payable (10,586 – 9,981)	605	1 12 15

Marks

4	(a)	(i)	Tax evasion refers to all attempts to minimise one's tax liability through illegal means. It is an offence	Marks
			and is punishable in law.	1
			It arises where a taxpayer intentionally conceals the true nature of his/her tax affairs, such as failing to declare income on his tax return.	<u>1</u> 2
		(ii)	Tax avoidance refers to all attempts to minimise one's tax liability through legal means, and without violating the tax laws.	1
			It pertains to a situation where a taxpayer legitimately takes advantage of the deductions, concessions and benefits provided by the tax laws in order to lessen or defer his/her tax liability.	1 2
	(b)	Mr	Таи	
		(i)	If Mr Tau opts to deposit the proceeds into his fixed deposit account, the proceeds will be taxed at source at a standard rate of 25%, which is a final tax. It means the proceeds will not be included in the gross income of Mr Tau.	2
			The tax payable will be (230,000*25%) M57,500	1 3
		(ii)	The tax saving options available are:	
			To reinvest the proceeds into another superannuation fund.	1
			This means the proceeds will be exempt from tax, and the M57,500 calculated in (i) above will be avoided.	1
			Tax will be deferred until a subsequent payout.	1
			OR	1
			Purchase an annuity within 90 days of the date of payment of the proceeds.	1
			The amount of each annuity payment will be included in the gross income and taxable at marginal rates.	 5
	(c)	Insu	arance compensation used to reconstruct similar premises	
		This	s is an involuntary conversion which is treated as a disposal for tax purposes.	1
			vever, a gain of (220,000 – 165,000) M55,000, that is, insurance compensation and adjusted cost e, will be deferred until Mr Tau disposes of the replacement premises.	1
			chargeable gain which will be part of Mr Tau's gross income will be (220,000 – 180,000) M40,000, is insurance proceeds and reconstruction cost.	1
				3 15
				15

5 Allowable deductions against employment income

(a) They are as follows:

(i)	Travel expenses	
	Travel expenses incurred by a taxpayer to produce employment income.	1
	The total expenses are apportioned in proportion to total time spent on employment activities.	1
(ii)	Motor vehicle expenses	
	Motor vehicle expenses incurred by a taxpayer for use of his/her motor vehicle to generate employment income.	1
	Where a motor vehicle is not used exclusively for production of employment income, the expenses are apportioned in proportion to the total mileage travelled or an allowance of one Loti is granted for each	2
	kilometre travelled in production of employment income.	2

	(:::)	Technical and trade backs and journals	Marks
	(11)	Technical and trade books and journals Expenses incurred by a taxpayer for books, journals and other publications on topics relevant to the taxpayer's current employment and used by the taxpayer in production of employment income.	1 1
	(iv)	Subscriptions to associations	
		Expenses incurred by a taxpayer for subscriptions to any trade or professional association, including a trade union.	1
	(v)	Home office expenses	
		Expenses in relation to a portion of a taxpayer's residence which the taxpayer uses exclusively and on a regular basis as his or her principal place of work.	1
		The use of the home office should be at the request of the taxpayer's employer.	1
		Allowable deduction is the proportion of the entire house occupied as the home office.	1
	(vi)	Educational expenses	
		Expenses incurred by a taxpayer to maintain or improve skills and knowledge which a taxpayer requires in his or her current employment.	<u>1</u> 12
(b)	The	minimum threshold of expenses listed from (i) to (v) above is in aggregate M2,500	1
	and	5% of a taxpayer's gross salary; and	1
	M1,	000 for educational expenses.	$\frac{1}{3}$