
Answers

Marks

1 Mr Mphofu

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

	M	M	
Employment income:			
Basic salary (34,500*10)	345,000		1
Housing allowance (3,450*10)	34,500		1
Car allowance (12,000*10/12)	10,000		1
Entertainment allowance (800*10)	8,000		1
Birthday present	900		1/2
Reimbursements			
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
	<u>398,400</u>		
Less: contributions to employer superannuation fund	(5,000)		1
		393,400	
Business income:			
Revenue	174,000		1/2
Less expenses:			
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
	<u>(25,459)</u>		
Trading loss			
Chargeable income		393,400	1/2
Tax payable:			
40,368*22%		8,881	1/2
353,032*35%		123,561	1/2
		<u>132,442</u>	
Less: personal tax credit		(5,000)	1/2
		<u>127,442</u>	
Tax liability		127,442	
Less: withholding tax (PAYE)		(103,400)	1/2
		<u>24,042</u>	
Tax payable			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**Manager:**

	M	
Basic salary	55,500	½
Less pension fund contributions (55,500*5%)	(2,775)	1
	<u>52,725</u>	
Tax payable:		
40,368*22%	8,881	½
12,357*35%	4,325	½
	<u>13,206</u>	
Less personal tax credit	(5,000)	½
	<u>8,206</u>	
Assistant manager:		
Basic salary	47,200	½
Less pension fund contributions (47,200*5%)	(2,360)	1
	<u>44,840</u>	
Tax payable:		
40,368*22%	8,881	½
4,472*35%	1,565	½
	<u>10,446</u>	
Less personal tax credit	(5,000)	½
	<u>5,446</u>	
Total tax remitted (8,206 + 5,446)	13,652	
Payable within 15 days following the end of the month of deduction.		<u>1</u>
		<u>7</u>

(c) Fringe benefits tax (FBT)

	M	
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	<u>28,000</u>	
Taxable amount (28,000/0.65)	43,077	½
FBT (43,077*35%)	15,077	½
		<u>4</u>
		<u>25</u>

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

	M	
Tax payable for the year ended 31 December 2010	31,300	½
Less: withholding taxes	(8,500)	1
	<u>22,800</u>	
Each instalment (22,800*30%)	6,840	½
		<u>2</u>

(b) Utilisation of ACT

ACT can be:

(i) Set off against instalments of tax	1
(ii) Set off against corporation tax liability net of instalments paid	1
(iii) Set off against value added tax (VAT) liability	1
(iv) Carried forward and set off against instalments of tax due, corporation tax liability and VAT liability in subsequent year(s) of assessment.	1
	<u>4</u>

(c) ACT

	M	
Dividends paid on 30 November 2011	54,000	
ACT ((54,000 – 7,500)*25/75)	15,500	1
Less instalments paid up (6,840*2)	<u>13,680</u>	1
ACT payable	<u>1,820</u>	
Payable on or before 7 December 2011.		<u>1</u>
		<u>3</u>

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

	M	
Business income (W1)	435,900	
Less: administrative expenses (W2)	<u>(192,400)</u>	
	<u>243,500</u>	
Property income		
Interest: Local (31,950*100/90)	35,500	1
Foreign	42,300	1
Dividends: Local (exempt)	0	½
Foreign	20,700	1
Gain from disposal of shares (32,600 – (1,700*6·20))	<u>22,060</u>	1½
	<u>120,560</u>	
Chargeable income	<u>364,060</u>	
Tax payable at 25%	91,015	1
Less: Foreign tax credit (see workings)	<u>(12,175)</u>	
Local withholding taxes on:		
– Interest (35,500 – 31,950)	(3,550)	1
– Business income (260,000 – 247,000)	<u>(13,000)</u>	1
– Instalments paid (6,840*3)	<u>(20,520)</u>	1½
Net tax payable	<u>41,770</u>	
Payable on or before 31 March 2012.		1

Workings:**1. Business income**

	M	
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	<u>(10,800)</u>	1
	<u>420,000</u>	
Add tax profit on disposal (80,500 – 64,600)	<u>15,900</u>	1
	<u>435,900</u>	

2. Administrative expenses

	M	
Total incurred	230,500	1/2
Less disallowed expenses:		
Legal fees (disallowed)	(24,800)	1
Annuity payment (14,500 – 1,200)	(13,300)	1
	<u>192,400</u>	

Tutorial note: The maximum allowable deduction for annuity payment is M1,200.

3. Foreign tax credit

Limited to average tax rate (91,015/364,060)				25%	2
Foreign income	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
				<u>12,175</u>	<u>21</u>
					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

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

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

	M	
Sales ($85,500 \times \frac{14}{114}$)	10,500	1
FMV of repairs understated ($2,500 - 1,800$) $\times \frac{14}{114}$	86	2
	<u>10,586</u>	
VAT payable (10,586 – 9,981)	605	1
		<u>12</u>
		15

	Marks
(iii) 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.	1 <hr/> 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.	1 <hr/> 3
	15 <hr/>